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CONTENTS

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POPULATION MOVEMENTS, EMPLOYMENT, AND INCOME

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Throughout the world at present interest in the economic consequences of demographic movements and in state policies designed to control such movements is developing. In view of this growing interest, and in view of the fact that many tentative and actual state demographic policies are founded upon questionable economic presuppositions, it is not amiss to indicate, even though in an incomplete form,[1] certain effects of population movements upon employment and income levels.

Inasmuch as the relationship between money (or physical) income per person and "welfare" per person is governed, assuming a given level of culture and pattern of tastes, by the prevailing degree of inequality in income distribution, and by the extent to which personal expenditure is "economic" and in line with the prescripts of "science,"[2] we shall not employ the term "income" in the "welfare" sense. We shall simply treat the term "income" as synonymous with "output" and assume, since other conditions are postulated to be constant, that any increase in the current per capita output of goods and services constitutes an increase in per capita income and per capita welfare as of the present and/or proximate future.

[1] The writer expects soon to publish a monograph upon the economic consequences of depopulation.

[2] The writer has treated relationship of "output" and "income" to "welfare" in *France Faces Depopulation* (Duke University Press), CHAP. XI, SEC. II.

I

Population movements—i.e., variations in the rate of growth of the total population, and in relative rates of natural growth by class or sub-region—within a closed economy influence per capita income through their effect upon the determinants of per capita income: (1) *fullness* of employment; (2) geographical distribution of population; (3) supply of resources per head; (4) efficiency with which resources are used.

Full employment of labor prevails in an economy when, other things equal, everyone who desires to work not only is occupied a specified number of hours per week or per year (say 40 or 2000), but is so employed that, given his training, aptitudes, and preferences, and the tastes and demands (actual and/or realizable) of the community, he is earning as much as, or more than, he could earn in any other employment persuable by him and acceptable to him. For since (other things equal) the utility and demand functions of specific goods and services fall with an increase in their relative supply, and the per capita productivity function within any given occupation eventually tends to fall, given an appreciable increase in the relative number engaged therein, it follows that some distribution of workers among occupations will make possible a greater overall per capita productivity than any other alternative distribution. Therefore, other things equal, labor income will be greatest when employment is *full*. Per capita income will be at a maximum when all factors of production are *fully* employed: i.e., when all factors are so occupied that the marginal productivity of each factor in any one employment is the same as in any other employment (pain costs and costs of factor-transfer being ignored), and the ratio of the marginal productivity of any one factor to that of any other factor is the same in all employments.

What constitutes the best, or *optimum*, distribution of factors among employments, varies with the period of time allowed for the adjustment and transfer of factors. The short run optimum will have been achieved when, given prevailing educational and training levels, no owner of any production factor can, by shifting the said factor from one employment to another, increase its rate of remuneration sufficiently to offset the psychic and non-psychic

costs of making the shift. (Presumably, correct cost accounting under the circumstances assumed requires the owner of the factor of production to allow for indirect as well as direct changes in factor income attendant upon such a shift.) The longer run optimum will have been realized when, assuming easily achievable upward adjustments of educational and training levels, an analogous equilibrium will have been established.[3] (Obviously, any change in tastes, technology, income distribution, resource supply, etc., will alter the short and the long run optima.)

It follows from what has been said that human employment, or unemployment, may range from zero to 100 per cent. When no one is employed, employment is zero, unemployment is 100 per cent. If everyone is so employed that, given his training and inclinations, he could not earn enough more in any other occupation to induce his shifting thereto, employment is 100 per cent, unemployment is zero. If, given the same conditions, not everyone is employed, or some persons are so employed that they are earning less than they could earn if they shifted to other occupations wherein they are willing and able to work, employment is less than 100 per cent. In short, the coefficient of unemployment, to be accurate, must measure both absolute unemployment and what Joan Robinson has called "disguised unemployment."[4]

II

Whereas changes in the rate of population growth may give rise, as we indicate below, to absolute unemployment, variations

[3] For example, the longer run optimum will not have been attained until investment in education is carried to the point where the marginal product of education, given the capital supply of the community, is equivalent to the marginal product of capital invested in other employments. Although, given present conditions of social cost accounting, investment in education beyond the point indicated may be deemed advisable, the above proposition is valid without qualification if communal and private cost accounts are extended and consolidated to include, in economic form, sufficient allowances for all types of investment justified on so-called "non-economic" grounds.

[4] "Disguised unemployment" exists, Miss Robinson states (*Essays In The Theory Of Employment*, pp. 82 ff.), whenever it remains possible for a worker to transfer part of his time from the occupation in which he is engaged to another occupation in which the productivity of his time is higher. In the writer's opinion the concept of ***disguised unemployment*** should be geared to ***time***, inasmuch as the passage of given time periods enables new net-employment-increasing shifts of labor. The concept is equally applicable to the other factors of production, as has been indicated.

from occupation to occupation and from sub-region to sub-region tend to swell the relative volume of disguised unemployment. For when such variations exist, the social agencies whose function it is to distribute correctly among occupations the annual increments of as yet uninitiated young workers find themselves unable to effect a proper distribution: the number of workers requiring redistribution proves relatively too large.[5]

In theory, given free and effective competition and suitable labor distributing agencies (schools, labor exchanges, etc.), new increments of labor can be properly distributed among various occupations. In practice, however, the redistribution of the new increments of labor prerequisite to the preservation or restoration of an optimum or employmentless balance among occupations is not realized. Conditions of imperfect competition[6] prevail. Moreover, children tend to pursue occupations resembling those followed by parents and adult acquaintances; for the home, social, and educational media within which children move (and these are relatively unfavorable in larger families in economies wherein family size is not an important determinant of income) largely shape their personal inclinations, attitudes toward

[5] For example: assume a community to consist of four occupational groups and postulate that each group recruits itself solely through natural increase. If, between time periods I and II, each group increases or decreases as in Table A, and if in period II the optimum balance among occupations remains as in period I, 300 workers must be transferred from occupational groups C and D to A and B. Were the rates of increase by occupation identical, no transfer would be necessary.

TABLE A

TIME PERIOD	NUMBER IN EACH OCCUPATIONAL GROUP IN EACH TIME PERIOD				
	A	B	C	D	All
I	1,000	1,000	1,000	1,000	4,000
II	800	900	1,100	1,200	4,000
Difference	−200	−100	+100	+200	0

[6] When competition is imperfect, employment is less fully extended in industries marked by conditions of imperfect competition than it would be, were competition perfect. Moreover, in so far as the labor supply of imperfectly competitive industries is drawn from trade union groups able to set wages above the "competitive" level, trade union policy further reduces the volume of employment offered by imperfectly competitive industries.

occupations, acquired aptitudes, etc.[7] Consequently, since natural increase not only varies from occupational group to occupational group, but also varies in the direction opposite that in which it needs to vary to preserve an optimum and full-employment balance among occupations, prevailing variations from occupation to occupation in natural increase constitute an important cause of disguised unemployment.

The effects of variations in the geographical distribution of the population throughout a region may be dealt with in a manner analogous to that employed in treating occupational distribution. In general it may be said that an optimum geographical distribution of the population has been achieved if, assuming tastes, income and resource distribution, etc., as given and constant, no one, given his training, aptitudes, and inclinations, can increase his income sufficiently to justify his changing his geographical location. So long as changes of this sort are justifiable the geographical distribution of the population is at a sub-optimum level, and average per capita real income can be augmented through migration.

Subregional disparities in the rate of natural increase may augment or diminish the geographical maldistribution of the population. For an optimum geographical distribution of the population does not exist until it is impossible for anyone, given his training and inclinations, and the tastes, income distribution, and resource pattern of the community, to increase his income sufficiently, through a geographical transfer of his services, to justify such a change. So long as the geographical distribution of the population is at a sub-optimum level, such transfers serve to augment overall per capita income, inasmuch as intersubregional trade is but a partial counterbalance to geographical maldistribution. Whenever subregional variations in natural increase are not counterbalanced by variations in the subregional supplies of wholly or partially unutilized resources, geographical maldistribution increases; given opposite conditions, geographical maldistribution decreases. In practice the unemployment which is associated

[7] E.g., see P. E. Davidson and H. D. Anderson, *Occupational Mobility In An American Community*, especially pp. 170, 172–73, 186, 188; also L. Hogben, ed., *Political Arithmetic*.

with geographical maldistribution of population is disguised rather than absolute, tending to assume the guise of occupational maldistribution.[8] When, as in the United States, frontier areas become settled, and in consequence the struggle of man with nature becomes transformed into a struggle between man and his fellows, both occupational and regional disparities in natural increase tend in a more marked degree to give rise to disguised unemployment.)

Although occupational and regional disparities in natural increase give rise primarily to disguised unemployment, they may aggravate cyclical tendencies to unemployment. For overcrowded regions and occupations constitute enclaves of industrial reserve armies that may be hired at less than their marginal productivities by entrepreneurs in other subregions and employments. Wherefore these entrepreneurs may enjoy "supra-normal" profits and be motivated thereby to seek larger volumes of credit and expand their activities to a supra-equilibrium level which cannot be preserved. Both the latter stages of the expansion period and the several stages of the contraction period within the industries in question will exercise a depressive effect upon the remainder of the industrial structure.

III

Per capita income is primarily dependent upon the supply of resources being utilized per worker and upon the efficiency with which this supply is utilized. In this and the ensuing section we shall treat the relations between population growth and resource supply, occupational and geographical distribution, age composition, and relative number employed being assumed to remain constant. The term resources denotes both things existing wholly or largely independently of man's past and present efforts, and instruments produced predominantly by human effort, from which utilities flow directly and/or indirectly. Current income flows

[8] See J. J. Spengler, this journal, IV (1937), pp. 140–53. Several of the figures in "Population Problems In The South," which appeared in 1937, require to be corrected. Part I, line 21, p. 393: for 13.5 read 11.8. Part II, line 14, p. 26: for 1930, read 1935. Part III, read as follows: line 17, p. 131, "42.2 to 44.4" for "42.8 to 43.9"; line 18, p. 132, 30.5 for 34.2; line 20, p. 132, 17.0 for 52.7; line 2, p. 133, "55.8 to 58.7" for "55.7 to 57.7."

only from resources actually in use, unused and partly used resources constituting a fund whence future income may flow.

The total supply of resources *available* to man is not fixed through time. Man can increase the present effective supply of depletable and non-replenishable resources (e.g., mineral supplies) by reducing the waste involved in their utilization. He can increase the effective supply of depletable but replenishable resources (e.g., timber supply) both by reducing the waste involved in their use and by increasing the rate of replenishment. (In practice, such replenishment is generally in part at the expense of depletable non-replenishable resources.) Man can increase the resource supply by bringing within the circuit of human use things which otherwise would be valueless or of lesser value (e.g., minerals, etc., in ocean waters; solar energy; herbs; etc.), and by changing communal patterns of tastes and the income distribution which helps to transmute tastes into effective demands.[9] The amount of resources utilizable per time period per worker in a community with a given supply of resources as already defined is governed by the level of technologic knowledge and the degree of its diffusion through and use in the population. (E.g., the invention of the combine as a substitute for simple reapers and threshers increased the amount of resources manipulatable per person.)

If the term, efficiency of use of resources, is understood to refer to the amount of net utility obtained from given resources per unit of human effort, it may be said that such efficiency will depend upon organizational aspects of the economy, some of which are

[9] For example, if, in a region where because of the tastes and income distribution little use was being made of land well suited to cotton production, tastes and income distribution were suddenly to become favorable to cotton consumption, real income per person would rise, provided the assumed change were not completely counterbalanced by a fall in the demand for some other resource of comparable size and quality within the region. A change in tastes (or income distribution) such as we have postulated would probably have more significance for income over a time period than for income at the moment, provided that the change in tastes involved a shift to the use of resources more or less depletable or more or less subject to rising costs as a result of partial depletion.

It should be noted that tastes and techniques are not wholly independent of each other or of the distribution of actual and potential resources throughout a region. Tastes, in part determined by technique, adapt themselves more or less to a region's resource pattern. Improvers of technique concentrate upon two things: (a) how to exploit the type of resources available; (b) how to overcome relative factor scarcity occasioned by regional resource and taste patterns.

referred to below, and upon the personal quality of the population. The latter depends upon genetic make-up, upon the quantity and nature of educational and similar stimuli impinging on the population, and upon the extent to which the application of principles of scientific management conserves and economizes human energy independently of the state of technology and per worker resource supply. (The relative amount of human and non-human resources required to impart the economically desirable quantum of educational stimuli will vary inversely to the genetic composition of the population.)

Although, as we indicate in the next section, populations of given sizes are necessary, other things equal, to permit the utilization of the best industrial techniques and interindustrial fits, population growth in a given region tends to diminish per capita *utilizable* resource supply. If population grows sufficiently, recourse to second, third, and lower grade resources (depletable and non-depletable) becomes necessary, and the supply per worker and per inhabitant falls below the level susceptible of current utilization. Moreover, the larger the population, other things equal, the greater the rate of depletion of both non-replenishable and replenishable depletable-resources, and the lower, after given periods of time, the per capita and per worker supply of such resources. Whenever the supply per worker and per inhabitant falls below the maximum utilizable level, per capita income falls, other things equal.

While it is possible that the intensification of interaction which accompanies increases in population density may stimulate technologic progress and cultural changes that serve to augment the total *available* supply of resources,[10] this proposition appears to be valid only for sparsely populated countries. All that is necessary to increase the relative amount of inventiveness to a maximum, given existing means of communication, is such a geographical distribution of the population as will allow a few local points of a density sufficient to permit cultural set-ups favorable to invention. In general the relative amount of inventiveness seems to be virtually independent of population growth. At any given time the quan-

[10] For a summary of this thesis see P. A. Sorokin, *Contemporary Sociological Theories*, CHAP. VII, especially pp. 364, 388–91, 397–98, 403.

tity of inventiveness may be taken as fixed, just as the quantity of any other factor of production may be taken as fixed; and the social gain derivable from inventiveness may be taken as at a maximum when inventiveness is correctly allocated among industrial and other employments.[11]

IV

Per capita output within a region depends (the resource supply, occupational and geographical distribution, and state of the arts being given) upon the extent to which optimum (i.e., minimum cost) scales of production are attained within each industry and within the economy as a whole. The extent to which optimum scales of production are attained within given industries (or layers of the economy) and within the economy as a whole is governed, other conditions remaining constant, by the size of the population.

It is evident that since factors of production are not infinitely divisible and therefore are not susceptible of being combined in fixed proportions on any desired scale, some scale of output for any given technique will permit lower per unit normal costs than any other scale, and some technique will permit lower per unit normal costs for a given output than any other technique. Let us call the minimum per unit cost scale of a producing unit in a given field of production or distribution the optimum scale, and let there be one optimum for each possible technical pattern of production. Let us assume three techniques, I, II, III, with respective optimum outputs of 5000, 10,000, and 20,000. We might then have a situation such as is depicted in Table I, where it is evident that I, II, and III would permit minimum per unit cost, respectively, given market demands of 5000, 10,000, and 20,000. Other things equal, the cost and price per unit of output would be lower, and per capita

[11] Presumably, if maximum economic use is made of the given quantity of inventive capacity, it will be employed to counterbalance the scarcity of those factors relatively least abundant and most expensive. Accordingly, since the relative scarcity of non-human factors is influenced in part by the size of the population, the particular uses to which inventive capacity may be put most economically will depend in part upon the size of the population. (For a discussion of the determinants and effects of inventiveness see R. K. Merton, *Scientific Monthly*, XLIV, pp. 165–70; Spengler, this journal [July, 1936], pp. 20–21.) While some would say that the economic exploitation of a given quantity of inventiveness will be greater in a growing than in a non-growing population, it seems to the writer that invention-exploiting entrepreneurial ability is as independent of population growth as is inventiveness.

output and income (in so far as per capita output and income in general are influenced by the condition of operation within the industry described in Table I) would be higher, given a population with a demand of 20,000 (or some multiple thereof) units than given populations with demands of 5,000, 10,000, or 15,000.[12]

Inasmuch as the populations which express effective demands for the optimum scale output (or some multiple thereof) within any one industry do not necessarily correspond in size with the populations that express effective demands for the optimum scale output (or some multiple thereof) of any other particular industry, only populations of certain sizes enable the entire industrial structure of a closed economy to operate at optimum scale. Given a population of such size, an optimum *fit* of producing units, one into another, may be said to exist.

TABLE I

UNITS PRODUCED	NORMAL PER UNIT PRODUCTION COST, GIVEN DESIGNATED TECHNIQUE AND QUANTITY		
	I	II	III
5,000	$1.00	$1.25	$1.50
10,000	$1.00	.90	1.10
20,000	$1.00	.90	.80

The most efficient or optimum *fit* among the producing units in the various lines of production within a region is that fit which would permit each industry to consist of one or more units employing technique III, as in Table I. Such a fit would be possible, given certain but not all sizes of population within a region. Let

[12] The average per unit cost of producing 25,000 units under the conditions assumed will range between 84 and 94 cents, according as the extra 5000 units are produced by plants employing technique I, II, or III. The minimum price necessary to call forth the extra 5,000 units supply is $1.00. If, however, the supply being taken were many times 20,000, the production of an additional quantity less than 20,000 would occasion no change in technique and only a very slight increase in marginal cost and price. For example: if 500 plants utilizing technique III were supplying 10,000,000 units at a cost and price of 80 cents per unit, and demand were to increase to 10,012,000 units at 80 cents, price would rise slightly above 80 cents, and each of the 500 plants would produce slightly less than 24 additional units at a marginal cost slightly in excess of 80 cents. In sum, the closer the number of producing units approximates the number necessary to insure perfect competition, the less significant becomes the problem under discussion.

us assume there are four stages of production, A, B, C, D, goods flowing from A through B and C to D wherein they are made ready for, and delivered to, the consumer. If the lowest per unit cost scale in each stage were III (see Table I) and each stage took 20,000 units from the preceding stage, then the lowest cost per unit finished good and therefore the greatest per capita income would be realized (other things equal) if the producing and consuming populations corresponded to one necessary to produce and consume 20,000 (or some multiple thereof) units of goods flowing from D. If the population were appreciably less than this size, the best fit would be obtained through use of the less productive techniques I or II or a combination thereof. If the optimum scale for III were 40, 30, 20, and 10 thousands respectively in stages A, B, C, and D, and each unit of production in a given stage absorbed one unit of production from the preceding stage, there would have to be produced in stage D 120,000 (i.e., the L.C.M. of the four optima) units if production in each stage were to be carried on at the lowest possible per unit cost scale. We should then have 12, 6, 4, and 3 producing units in D, C, B, and A. If less than 120,000 were produced in stage D, part of the output in some of the prior stages would have to be produced through use of the more costly techniques I and II, or through use of III in a state of undercapacity. Per capita income then would be less, and "abnormal" profits (or rents) would manifest themselves in those producing units in the prior stages operating with technique III.

In view of what has just been said, it is evident: (a) that given any particular technique, populations of given size are necessary if the best possible fit and highest per capita income are to be obtained; (b) that any invention which increases the divisibility of the factors and makes possible smaller scales of operation frequently but not necessarily tends to reduce the size of population necessary to achieve a given per capita income; (c) that trading relations with other regions which absorb the "excess" output of certain stages in a given region may enable a smaller population in the latter region to obtain a given per capita income.[13]

[13] Much of the treatment of optimum size in producing units is rendered inaccurate by the failure of economists to recognize the problem of *fit* and the need to include every necessary type of producing unit, whether governmental or private. The problems of intra-plant

The highly simplified illustration here employed must be corrected for the following: (a) that the effort to obtain the best *fit* through population growth may push production in some stages so far that *inferior* resources have to be used, thus altering the data as given in Table I; (b) that a given stage may feed several later stages (e.g., coal mining); (c) that the transportation factor must be fully taken into account.

V

The major longer run effects of continued population growth, assuming a given geographical and occupational distribution of the population and similar rates of natural growth in the various occupational and geographical sectors of the population, are three in number: (a) the resource supply per worker in some or all fields of production falls below the amount necessary to permit maximum possible output per person, the ultimate fixity of the total supply of first class resources compelling either their use under less favorable circumstances or recourse to the use of inferior order resources;[14] (b) the *fit* among producing units is improved, or worsened, thus counterbalancing or aggravating the effect noted under (a); (c) the rate at which depletable resources are being exhausted is increased, with the result that over time per capita income may be depressed. It follows that if maximum per capita income over time[15] were the desideratum, and the supply of re-

and inter-plant coordination are closely related, but not necessarily identical. Thus if one were to conclude from an analysis of the determinants of intra-plant coordination that a smaller scale of operation might be preferable, one might ignore the fact that the social costs of coordinating a larger number of smaller producing units might more than counterbalance the seeming economies of smaller scale operating units. These interplant coordinating costs would manifest themselves in the form of greater governmental or trade association or similar costs. It is therefore necessary to distinguish intra- and inter-plant coordinating costs, determine the functional relation between them, and correct the intra-plant solution accordingly; or to reduce all inter-plant coordinating costs to intra-plant form and then ascertain under what conditions per unit costs will be at a minimum for each type of activity necessary to the creation and distribution of goods and services.

[14] The rate of accumulation of capital, as distinguished from "natural" resources, is checked, other things equal, by natural increase. See H. Bowen, *Social Forces*, XV (1937), pp. 346–50.

[15] For a treatment of the time factor in economic and sociological analysis, see the writer's article in the *International Journal of Ethics* (April, 1934), pp. 319–26. On the "economics of exhaustible resources" see H. Hotelling, *Journal of Political Economy*, XXXIX (1931), pp. 137–75.

sources of first order were sufficiently great, the desirable or *optimum* population would be the *smallest* number of persons necessary to permit an optimum *fit* of all industries. Since, however, the supply of resources of first order does not tend to correspond with that required by the preceding proposition, per capita income over a designated period of time will be at a maximum only if an appropriate compromise is struck between the worker:resource ratio and some approximation to optimum *fit* among industries, each of which variables is a function of the size of the population and not readily measurable.[16]

Our analysis has thus far presupposed a closed regional economy. Such an assumption is unreal, however, for it is generally true that in the absence of interregional trade the ratio of the prices of some productive factors to the prices of other productive factors will vary from region to region, giving to each region a differential advantage in the production (within limits) of such goods and services as require for their production relatively large amounts of the productive factors abounding in said region. For seldom do the relative proportions in which the population of a region demands the various productive factors found in that region just match the relative proportions in which such factors are available and thus cause the factor price structure in that region to be the same as the factor price structure in other regions in which productive factors occur in different proportions. Wherefore interregional trade usually pays, its establishment adding to, or subtracting from, the domestic demand for specific classes of productive factors found within a region. Accordingly, the exchange value of some of the productive resources becomes less than it would be in the absence of trade; the exchange value of others increases. The total exchange value is greater. What constitutes the best geographic and occupational distribution of the population differs from what it would have been in the absence of trade and becomes dependent upon extra- as well as upon intraregional changes in tastes, income distribution, technologic progress, etc. Given trading relations; (a) per capita income will be

[16] Concerning measures of "overpopulation" see H. Dalton, *Economica*, VIII (1928), pp. 28–50. It is not our intention here to discuss the theory of the *optimum* population, points concerning which are discussed in our *France Faces Depopulation*, CHAP. XI, and in the work referred to in footnote 1, above.

greater with a given population than in the absence of trade; (b) the regional population permitting the greatest possible continued per capita income (i.e., the income *optimum* population) may be larger or smaller than it would be in the absence of trade, but the maximum possible income will be greater.[17]

VI

In the remainder of this paper we shall deal briefly with the effects of a long-continued decline (or increase) in natural increase of population upon the *fullness* of employment. Inasmuch as the precise effect of such a decline will depend, other things equal, upon the nature of the changes in mortality, several observations are necessary. First, if fertility and mortality rates become constant, after a decrease (or increase) in fertility rates and a decrease (or increase) in mortality rates, the population finally becomes stable in age composition and the rate of natural decrease (or increase) becomes constant. If, on the contrary, fertility rates continue to fall (or to rise) relative to mortality rates (which shall be assumed to be falling), the age composition will not become stable, and the rate of decrease (or increase) will not become constant: the relative number of older persons will continue to increase (or decrease), and the rate of increase will continue to fall (or rise) within determinable outside limits.[18]

For purposes of illustration use is made of two estimates of the future population of England and Wales: (1) based on the assumption of the continuation of the fertility and mortality rates of 1933, at which time the net reproduction rate was 0.734; (2) based on the assumption of a continuation of the past decline in fertility and mortality rates.[19] The relevant characteristics of the types

[17] For statements of the argument that some protection may increase population capacity of a given region at a given income level see J. B. Brigden *et al.*, *The Austrialian Tariff*, especially p. 84; D. B. Copland, *Economic Record Supplement* (March, 1935), XI, pp. 33–34. For criticism see G. Haberler, *The Theory of International Trade*, pp. 277, 286–89.

[18] See A. J. Lotka, *Journal of American Statistical Association*, XX (1925), pp. 329 ff. and references; R. R. Kuczynski, *Fertility and Reproduction*; B. Karpinos, *Human Biology*, VII (1935), pp. 514–38.

[19] E. Charles, Royal Economic Society *Memorandum No. 55* (December, 1935), pp. 2–19. We shall employ the subscripts 1 and 2 to designate estimates according to assumption 1 and 2.

TABLE II*

PERIOD	PER CENT DECREASE IN POPULATION				PER CENT DECREASE IN MALES 20–64**		QUINQUENNIAL PER CENT DECLINE IN ORIGINAL COHORT OF MALES AGED 20–64***			
	Estimate 1		Estimate 2							
	Total	Male	Total	Male	Estimate 1	Estimate 2	1935_1	1935_2	1960_1	1960_2
1935–40	+0.653	+0.817	+0.227	+0.390	11.107	10.751	11.107	10.751	12.232	10.964
1940–45	+0.118	+0.265	0.647	0.512	11.287	10.624	12.667	11.960	15.419	14.182
1945–50	0.484	0.325	1.550	1.404	11.152	10.296	14.482	13.477	17.693	16.722
1950–55	1.158	0.964	2.487	2.316	11.296	10.276	16.922	15.564	20.471	19.458
1955–60	1.838	1.607	3.445	3.231	11.466	10.240	20.062	18.271	23.180	22.011
1960–65	2.442	2.172	4.386	4.107	12.232	10.964	25.539	23.295	31.939	31.274
1965–70	3.015	2.798	5.620	5.347	14.025	13.075	36.780	34.685	38.764	38.473
1970–75	3.495	3.263	6.911	6.683	14.298	14.152	53.679	52.022	54.417	55.831
1975–80	3.951	3.766	8.251	8.100	14.444	14.943	100.000	100.000	100.000	100.000
1980–85	4.357	4.215	9.599	9.530	13.982	15.160				
1985–90	4.673	4.561	10.844	10.825	15.814	18.840				
1990–95	4.880	4.798	12.116	12.165	14.778	19.029				
1995–2000	4.987	4.931	13.478	13.600	14.509	20.593				
2030–2035	5.000	4.991	20.598	20.602						

* Computed from Charles, *op. cit.*

** Computed as follows: Males aged 25–64 in given year (say 1940) divided by males aged 20–64 five years earlier (say 1935) and subtracted from 100.

*** Illustration: A cohort of males, 20–64 in 1935, declines 11.107 per cent in 1935–40, 12.667 in 1940–45, on assumption 1; a cohort of males, 20–64 in 1960, declines 10.964 per cent in 1960–65, 14.182 in 1965–70, on assumption 2.

of decrease are given in Tables II and III. On the former assumption the age composition and the rate of decrease become stable about 1995. On the latter assumption, the percentage of the population aged 0–15 steadily decreases; that 60 and over steadily increases; that 15–60 increases to a maximum about 1960 and then steadily decreases; the rate of decrease steadily rises. In columns 6–11 of Table II are given the rates of decrease, in the absence of the addition of new recruits, in a cohort of males initially aged 20–64 (i.e., of working age). Within any given five-year period (cols. 6–7) death and age reduce such a cohort by 10+ to 20+ per cent, and this rate of decrease steadily increases (cols. 8–11).

TABLE III*

YEAR	AGE DISTRIBUTION, IN PER CENT							
	Estimate 1				Estimate 2			
	0–4	15–19	20–59	60 +	0–5	15–19	20–59	60 +
1871–80	13.80	9.70	46.60	7.40	13.80	9.70	46.60	7.40
1935	7.05	7.46	56.84	12.45	7.05	7.46	56.84	12.45
1950	6.30	6.74	58.44	15.81	4.46	6.96	60.62	17.01
1960	5.83	6.40	57.86	17.50	3.23	5.37	62.13	20.69
1980	5.38	5.98	55.27	22.18	1.56	3.25	58.07	32.63
1995	5.32	5.94	53.92	23.60	1.12	2.15	49.81	43.83
2010	5.32	5.95	54.27	23.31	0.88	1.77	43.64	51.22

* 1935–2010, from Charles, *op. cit.*

Assuming tastes, income distribution, and income levels to remain unchanged except in so far as they are governed by changes in the rate of increase and in the age composition, the relative amount of absolute and/or disguised unemployment is fixed in part by changes in the rate of population growth; for, given imperfect mobility of the factors of production and imperfect knowledge on the part of entrepreneurs and of factor-owners relative to the utilizability of the factors of production, re-distributions of productive factors appropriate to changed demographic conditions are not made.

Let P = the total population; D = the total demand for the services of employables; E = the total number of employables; $d_1, d_2, \ldots d_n$ = the respective demands for labor in employments 1, 2, . . . n; $e_1, e_2 \ldots e_n$ = the number of employables affiliated

with employments 1, 2, . . . n; C = the coefficient of *fullness* of employment, expressed as a relative ranging between zero and 100.[20] Let $D = \Sigma\, d_1 \ldots d_n$; $E = \Sigma\, e_1 \ldots e_n$. Changes in P, or in the rate of growth of P, may be accompanied by changes in C, if changes in P, or in the rate of growth of P, are necessarily accompanied by changes in the mobility of labor, in $\frac{D}{E}$, or in $\frac{d}{e}$.

The mobility of labor and $\frac{D}{E}$ both undergo change in consequence of the changes in age composition which accompany changes in the rate of natural increase. Let m = the coefficient of mobility of labor; r = the percentage of the population just short of the age of employability, say in the age group 15–19; let E = the percentage of the population in the age group 20–59, or in that 20–64. Presumably, other things equal, $m = \frac{r}{E}$; for the greater the relative number of as yet unspecialized workers, the greater the facility with which a given change can be made in the proportions in which workers are distributed among various employments. m falls in value as the rate of natural increase falls, continuing to fall until the age composition becomes stable. The values for m, according to the data in Table III, are: 1871–80, 0.208; 1935, 0.131; 1960_1, 0.111; 1960_2, 0.086; 1995_1, 0.110; 1995_2, 0.043; 2010_1, 0.110; 2010_2, 0.042. If C varies directly as m, it follows that, other things equal, a decrease in the rate of increase in P will be accompanied by declines in m and C until the age composition of the population becomes stable. In view of our subsequent analysis it will become evident that every possible effort must be made, given a falling population, to improve educational institutions, employment exchanges, and so on, in order that the effects of a decline in $\frac{r}{E}$ may be counteracted.

Let E = the percentage of the population aged 20–59; U = the percentage in the unemployable age groups, 0–19 and 60+. The demand (= D) for the labor of E derives immediately from the

[20] D, d, E, and e are assumed to be functions of all pertinent prices, but are not so described in the text inasmuch as such description would unduly complicate the discussion.

purchasing power—itself ***in the long run*** the product of the goods and services created by E in conjunction with non-human factors of production—in the hands of $E + U\ (= P)$. Wherefore, given present capitalistic institutional and monetary arrangements, it is probable, but not necessary, that an increase in $\frac{E}{E+U}$ (i.e., in $\frac{E}{P}$) will be accompanied by a diminution in the value of $\frac{D}{E}$ and that a decrease in $\frac{E}{P}$ will be accompanied by an increase in the value of $\frac{D}{E}$.[21] Assuming that C varies directly with $\frac{D}{E}$, it is evident that per capita income will fall if $E \times C$ falls, and rise if $E \times C$ rises. On a priori grounds it appears unlikely that any given small relative change in E will be accompanied by a change in C sufficiently great to offset or more than offset the change in E. Whence it is highly probable that an increase in $\frac{E}{P}$ will be accompanied by an increase in per capita income and a decrease in the relative amount of employment (i.e., in C); a decrease in $\frac{E}{P}$ will be accompanied by a decrease in per capita income and an increase in the relative amount of employment (i.e., in C).

Substitution of values in Table III (cols. 4, 8) for $\frac{E}{P}$ indicates that, assuming other conditions than age composition[22] to be

[21] It is not our theses that, given some particular desire scale for leisure, it is impossible to employ E fully when $\frac{E}{P}$ is high; but rather that it is more difficult to secure full employment of E when the value of $\frac{E}{P}$ is high than when it is low. In theory, a full employment distribution of E among employments can be obtained whatever be the value of $\frac{E}{P}$.

[22] The effect of any given change in age composition upon per worker and per capita productivity depends, other things equal, upon the occupational composition of the population. In some occupations (e.g., tap dancers, boxers) maximum productivity is reached at an early age and thereafter declines rapidly; in other occupations (e.g., carpenters, mechanics) maximum productivity is reached at a later age and maintained for many years.

constant: (a) per capita income and unemployment will be at a maximum in 1950–60; (b) unemployment will fall less rapidly, given estimate 1 than estimate 2; (c) per capita income will become stable about 1995, given estimate 1, but will steadily fall, given estimate 2. Whence it follows that, should it prove impossible to elevate fertility and bring about the establishment of a stationary population, it is highly desirable that fertility rates be stabilized and that the population, though declining, be made to assume a stable age composition.

VII

A given relative decline in P will be accompanied at least temporarily by a decline in C, if such a decline in P, and the correlative declines in the numbers of employables in given employments (say $e_1 \ldots e_{20}$), are accompanied by declines of greater magnitude in the demands (say $d_1 \ldots d_{20}$) for the services of said groups of employables (i.e., $e_1 \ldots e_{20}$), and unaccompanied by ***simultaneous*** or ***prior*** offsetting increases in the demands (say $d_{21} \ldots d_{40}$) for the services of other groups of employables (i.e., $e_{21} \ldots e_{40}$). For, given such offsets, it is conceivable, despite the imperfect mobility of labor, that the incipient surplus of workers in $e_1 \ldots e_{20}$ will be drawn at once into $e_{21} \ldots e_{40}$. In practice a decline in P may be accompanied by an at least temporary fall in C for at least one of three main reasons: (i) changes in age composition; (ii) the nature of inter-employment relationships; (iii) the partial dependence of investment upon demographic trends.[23] The actual effect of (i), (ii), and (iii) upon C will be governed, other things equal, by the state of entrepreneurial (individual, institutional, or governmental) expectation or anticipation with respect to the future. If, for example, this state is characterizable as "pessimistic," the depressive effect of (i), (ii), or (iii) upon C will be greater than if

[23] Other reasons than those indicated may be mentioned but cannot be treated in the space available. E.g.: the elasticity of demand may be altered by demographic changes; the complex of monetary price levels may be influenced by demographic change; disparities between actual and appropriate levels of remuneration of productive factors may develop in consequences of demographic change. Moreover, assuming changes in tastes and technology, the relative amount of factor transfer prerequisite to full employment tends to be greater in a declining than in a growing population. On some of these points see the writer's discussion in *Harvard Business Review*, XII (1934), pp. 204–21, and in references cited in notes 2 and 11 above.

this state is characterizable as "optimistic." For purposes of analysis varying values may be assigned to the "state of entrepreneurial expectation,"—a state determined in part by non-demographic sociological and institutional conditions and therefore in large part independent of the variables that are being discussed here—and employed to correct conclusions reached on the basis of a given "state of entrepreneurial expectation."

(i) Given declines in P are accompanied, until age composition becomes stable, by relatively greater declines in the younger age groups and by relatively smaller declines in the higher age groups (see Table III). If any d is a function of age composition, it will change by greater or lesser relative amount than P so long as age composition is not stable. Let us suppose that $d_1 \ldots d_3$ vary directly and proportionally as the age group 0–4; that $d_4 \ldots d_6$ vary directly and proportionally as the age group 60+; and that $e_1 \ldots e_6$ vary directly and proportionally as P. Given estimate 1, $d_1 \ldots d_3$ decline 19.6 per cent in 1935–50, $d_4 \ldots d_6$ increase 37.5 per cent, and $e_1 \ldots e_6$ decline 2.7 per cent. A surplus will have developed in $e_1 \ldots e_3$; a deficit in $e_4 \ldots e_6$. A transfer of workers from $e_1 \ldots e_3$ to $e_4 \ldots e_6$ will eliminate the unemployment in the former occupations.

If the decline in $d_1 \ldots d_3$, and the increase in $d_4 \ldots d_6$ are anticipated; and if it is customary to recruit given employments in so far as possible from the offspring of persons enrolled in such employments, the bulk of the offspring of persons engaged in $e_1 \ldots e_3$ may be shunted into $e_4 \ldots e_6$. For example: in 1935–40, the number aged 0–4 declines 6.01 per cent; the number engaged in $e_1 \ldots e_3$ would be reduced by death and age, assuming no recruits, by 11.1 per cent (Table II, col. 6), and increased, assuming the recruiting of all offspring, by 1.64 per cent. Balance is preserved on condition that 40 per cent of the offspring (of persons in $e_1 \ldots e_3$) ageing into employability, are directed into $e_1 \ldots e_3$, and the remaining 60 per cent are directed in to $e_4 \ldots e_6$ which, in the absence of outside recruiting, will be too small. Should there develop complications, such as arise because of conditions described in (ii), further corrections will be necessary; but the indicated procedure remains the same.[24]

[24] For a treatment of certain possible complications see M. Mitnitzky, *Social Research*, I (1934), pp. 198–218.

(ii) It is generally accepted that, given appropriate qualifications, a decline in the rate of increase in the consumption of a given service will be accompanied by an absolute decline in the consumption of durable and/or producers' goods whence this service flows, provided that the replacement needs for such goods do not expand sufficiently per time period to offset the decline in the need for *additional* goods.[25] A decline in the rate of population growth will not only diminish the rate of increase for given services, but will eventually bring about an absolute decrease in the demand for given services, and corresponding or greater relative decreases in the absolute demand for durable and/or producers' goods. In other words: given declines in the rate of natural increase, if continued for a long enough period, will diminish not only the rate of increase in the demand for given services, but also the absolute demand for such services. The absolute demand for durable and/or producers' goods whence flow such services will be depressed even more, at least temporarily. In brief: given declines in P will be accompanied by relatively greater declines in some d's; wherefore surpluses of workers will develop in some e's, unless the recruiting of said e's is checked.

Let each e and d_1 vary directly and proportionally as P. Suppose: (a) that per time period t, one mechanical unit M_1 produces 1000 units of good 1, one M_2 produces 100 M_1, and one M_3 produces 10 M_2; (b) that replacements per time period t = 25 per cent of the number of mechanical units in use in the preceding time period; (c) that P declines after a long period of stationarity. The results are given in Table IV. Given a constant rate of decline in P (col. 6), d_{M_1}, d_{M_2}, and d_{M_3} decline at a constant rate after a lapse of one, two, and three time periods respectively. In t_2 a labor surplus of three units develops in e_{M_1}; in e_{M_2}, a surplus of 15 in t_2 and 5.85 in t_3; in e_{M_3}, a surplus of 63 in t_2, a deficit of 21.04 in t_3, and a surplus of 8.5563 in t_4 (cols. 7–9). Provided that these surpluses are transferred to other relatively expanding e's, continuation of the constant rate of decline in P will occasion no

[25] See R. Frisch, *Journal of Political Economy*, XXXIX (1931), pp. 646–54, and ensuing controversy with I. M. Clark, *ibid.*, XXIX–XL; J. M. Clark, *Strategic Factors in Business Cycles*; G. Haberler, *Prosperity and Depression*; S. Kuznets, in *Economic Essays In Honor of Wesley Clair Mitchell*, pp. 209 ff.; W. Röpke, *Journal of Political Economy*, XLIV (1936), pp. 318–38; J. Tinbergen, *Economica*, n.s., V (1938), pp. 164–76; also A. H. Hansen, *Business Cycle Theory*.

further surpluses in e_{M_1}, e_{M_2}, and e_{M_3}. If, however, P declines at an increasing rate (col. 2), d_{M_1}, d_{M_2}, and d_{M_3} will fall at slightly greater rates. Wherefore continually recurring labor surpluses will develop in e_{M_1}, e_{M_2}, and e_{M_3}—surpluses which can be avoided only by shunting a sufficient proportion of the offspring of persons in these employments to other relatively expanding employments.

Let us substitute for assumptions (a), (b), and (c) the following postulates, and retain the assumption that each e and d_1 vary with P: (d) M_1, M_2, and M_3 are put into use in the time period following that of their construction and become absolutely useless upon the completion of the fourth period of use, whether actually used or not; (e) that M_1, M_2, and M_3 are produced respectively in the time period preceding their use; (f) that P decreases, or increases, after having been stationary. The introduction of condition (d) produces periodic fluctuations in d_{M_1} and marked fluctuations in d_{M_2} and d_{M_3} which are greatly influenced by past irregularities in the volume of their construction (see Table V). Whereas deaths, age changes, and minor transfers of workers out of or into e_{M_1} will adjust e_{M_1} to d_{M_1} (cp. cols. 2 and 3; 6 and 7) large periodic transfers are required to adjust e_{M_2} (cols. 4, 8) and unmanageable transfers to adjust e_{M_3} (cols. 5, 9). If, however, one substitutes for assumption (d) the assumption that M_2 and M_3 may be used 4–6 years, given extra allowance for wear and tear, the production of M_2 and M_3 may be evened out and made to behave somewhat as in Table IV.

When the supposition that any e varies directly and proportionally as P is adjusted to reality, it becomes evident that, given conditions at all similar to those depicted in Table IV, no inter-employment transfer of workers is necessary to preserve full employment. It is but necessary that workers just aged into the employable age group (say 20–24) be distributed among the various employments in different proportions than older workers already employed. For, as we have indicated (cp. cols. 6–11 with cols. 2–5 in Table II), death and age alone will diminish the number originally in any employment e much more rapidly than an excess of deaths diminishes P, or economic changes associated with declines in P depress any particular demand d. In fact, so great is the incidence of death and age, that some new recruits are

needed in almost all employments to adjust *d* to *e*. Wherefore it is evident, as has been indicated already, that proper occupational guidance and direction of youth will be far more important in a falling than in a growing population.

TABLE IV

TIME PERIOD	INDEX OF POPULATION	INDEX OF DEMAND FOR			INDEX OF POPULATION	INDEX OF DEMAND FOR		
		M_1	M_2	M_3		M_1	M_2	M_3
t = 0	100	100	100	100	100	100	100	100
1	100	100	100	100	100	100	100	100
2	99	96	84	36	99	96	84	36
3	98	95	92	116	98.01	95.04	92.16	116
4	97	94	91	88	97.0299	94.0896	91.2384	88.4736
5	96	93	90	87	96.059601	93.148704	90.326016	87.588864
6	95	92	89	86	95.09900499	92.21721696	89.42275584	86.71297536

TABLE V

TIME PERIOD	POPULATION INDEX	INDEX OF DEMAND FOR			POPULATION INDEX	INDEX OF DEMAND FOR		
		M_1	M_2	M_3		M_1	M_2	M_3
t = 000	100	100	100	100	100	100	100	100
00	100	100	100	36	100	100	100	164
0	100	100	84	164	100	100	116	36
1	100	96	100	100	100	104	100	100
2	99	96	100	100	101	104	100	100
3	98	96	100	0	102	104	100	292
4	97	96	68	200	103	104	132	0
5	96	92	100	100	104	108	100	8
6	95	92	100	100	105	108	100	100
7	94	92	100	0	106	108	100	420
8	93	92	52	200	107	108	132	0
9	92	88	100	100	108	108	84	0
10	91	88	100	100	108	104	100	0
11	90	88	100	0	107	104	100	528

VIII

(iii) The long-run trend in population growth influences investment and the level of employment, not as an independent factor but as a factor serving either to re-enforce or to counterbalance shorter-run cyclical determinants of investment and

employment. Early in the present century Pohle found in population growth, despite its not highly variable character, a periodically disequilibrating factor.[26] Recently Lösch has sought to show that production and business activity have co-varied closely with fluctuations in the annual rate of population growth,—fluctuations largely traceable in turn to the immediate effects of great wars. For fluctuations in the annual rate of increase give rise to fluctuations in the supply of labor and in the rate of growth of *reliable* markets for old and tested types of goods, in particular for buildings and for machinery to be used in conjunction with the new labor supply. The resulting business optimism, coupled with the increased availability of labor, at times may serve also to encourage innovators and intensify their activity. When, on the contrary, the absolute and relative amount of natural increase falls below the previously prevailing level and therefore below the level pre-supposed by business, a crisis develops, particularly in the capital goods industry, a large part of which in the past has been engaged in making provision for new increments of population and labor.[27]

When population growth began to taper off, business cycle theorists, who found the main source of economic fluctuation in variations in the rate of investment or in the production of fixed capital, predicted that business conditions would become more stable as population leveled off, inasmuch as the highly fluctuating capital-producing industries would decline in relative importance and therefore in capacity to dominate the economic situation.[28] With depopulation in the offing, however, other writers now predict that a decline in numbers may tend to augment the relative amount of unemployment, either because the modern want pattern

[26] See L. Pohle *Bevölkerungsbewegnung, Kapitalbildung und periodische Wirtschaftskrisen.*

[27] *Bevölkerungswellen und Wechsellagen*; *Schmollers Jahrbuch*, LX, Heft 6, 1936, pp. 37–45, LXI, Heft 4, 1937, pp. 71–76; *Quarterly Journal of Economics*, LI (1937), pp. 649–62. Although Dr. Lösch does not deal specifically with the problem of a declining population, his analysis seems to imply that were the rate of population growth stable, or zero, business fluctuation would be less pronounced; and that were numbers to decline, the capital goods industries would tend to be more depressed through time than when numbers are growing.

[28] G. Cassel, *Theory of Social Economy*, pp. 646–47; A. H. Hansen, *Journal of Farm Economics*, XIV (1932), p. 66; *American Economic Review Supplement*, XXI (1931), pp. 200–201; also J. M. Clark, *Strategic Factors . . .*, p. 225.

tends to become less favorable to investment as numbers decline, or because the anticipated return on investment is too low, in consequence of the decline in population, to induce sufficient investment to assure full employment.

According to the Keynsian theory of investment and employment—the most full-bodied of contemporary investment theories—a decline in population will depress the rate of investment and reduce the level of employment.[29] For at any given time the fullness of employment and the level of income are governed by the desire to save and the rate of investment. If, given the current level of thrift and the current rate of interest, entrepreneurs are unwilling, in light of the prospective earnings of capital, to invest at the same rate as the population saves (i.e., does not spend upon current consumption), given the level of income associated with full employment, income and employment must fall to that level at which the rate of investment equals the rate of saving; for the rate of saving and the rate of investment must of necessity be equal. If, however, entrepreneurs stand ready to invest whatever portion of the communal income is saved at the level of full employment, full employment equilibrium will prevail. But it cannot prevail for long, in the absence of appropriate adjustments in the interest rate, the thriftiness of the community, and the technique of production; for capital accumulates, the prospective earnings of capital fall, and (assuming no adjustments) employment and income fall to a level at which investment and saving are equal. Long-period full employment equilibrium can prevail, other conditions remaining constant, only on condition that net saving is zero.

If, assuming that long-period full employment equilibrium has prevailed, population declines and, in consequence, the prospective earnings of capital fall, disinvestment sets in and, through the operation of the multiplier, produces unemployment in both the capital goods and the consumption goods industries and a fall in

[29] See J. M. Keynes, *General Theory of Employment, Interest, and Money*; also article in *Eugenics Review*, XXIX (1937), pp. 13–17; Joan Robinson, *Essays In The Theory Of Employment*, and *Introduction To The Theory Of Employment*; also J. R. Hicks, *Economic Journal*, XLVI (1936), pp. 238–53, and R. F. Harrod, *The Trade Cycle*.

the level of per capita income. (Presumably, disemployment of this sort will always outstrip in rate the decline in the number of employables.) It follows, on the Keynesian premises, therefore, that given a declining population, employment and per capita income can remain at the theoretically maximum level only on one or both of two conditions: (a) that the rate of interest be kept low enough to induce entrepreneurs to effect great changes in the technique of production, and consumers to consume much larger relative quantities of goods involving a larger relative amount of capital; (b) that institutions and the distribution of income be altered in ways that strengthen the propensity to consume and reduce the portion of income that is saved. Otherwise investment and saving will be equal only at a level of employment and income far below the theoretically attainable maximum. Inasmuch as most of the Keynesians, in contrast with other interest theorists,[30] consider it improbable that a sufficient fall in the interest rate can or will take place, they must place major emphasis upon condition (b).[31]

The difficulties involved in preserving something like a full-employment equilibrium between investment and saving in a declining population are enhanced by conditions peculiar to the present-day as contrasted with the century-ago want pattern. On the one hand, certain conditions are more conducive to thrift. The propensity to consume is less pronounced in small than in large families,[32] and in practice this propensity can be varied appreciably, inasmuch as a large proportion of the commodities consumed today are more or less durable and therefore utilizable for longer or shorter periods of time at the discretion of the consumer. The propensity to consume is checked likewise by the fact that the primary desideratum of the representative person today is

[30] See Spengler, this journal, III, pp. 7 ff.; also F. Knight, *Journal of Political Economy*, XLIV, pp. 433 ff., 612 ff.

[31] Needless to say, problems associated with government and other debt burdens will be aggravated by a decline in numbers unless appropriate counter-remedies are taken.

[32] Each child increases by 10–20 per cent the non-deferrable expenses of a family. Therefore, other things equal, the smaller the family, the less the pressure of non-deferrable expenses. (It is quite possible, however, that in the long run the spread of the small family system will not be accompanied by a decline in the propensity to consume. For as the pattern of living changes, and the absolute amount of non-deferrable expenses per person increases, and other conditions cease to remain equal, the propensity to save declines.)

economic security, and by the belief that, were full employment attained, it would not long continue. On the other hand, certain conditions are unfavorable to the expansion of investment. Since little if any increase is to be expected in the demand for simple and basic commodities requiring little entrepreneurial ingenuity for their production and distribution, a hitherto ever-present stimulus to investment will have disappeared. Instead, many of the goods and services, the demand for which as a group is certain to prove quite expansible, do not appear very susceptible of production by individual entrepreneurs for sale to individual consumers, or are likely, in so far as the production and distribution of any one member of the group is concerned, to be heavily loaded with risk and uncertainty.[33]

Whether or not the Keynesian analysis is accepted, it is evident that adjustments of the sort thereby indicated as necessary will have to be made as the crude rate of population growth approaches and falls below zero. In the 1920's business and construction capital expenditures helped to initiate and sustain the level of business activity and consumption in the United States. In the post-1928 era the decline in the rate of population growth apparently contributed to the restriction of capital expansion.[34] In the immediate future monetary savings are likely to approximate \$11–13 billion in contrast to estimated capital requirements of \$8–9 billion.[35] Whence it is evident that if the level of employment and income in the United States is to be elevated appreciably, the conditions on which money is lent must be sufficiently relaxed to permit an appreciable increase in the rate of investment—an increase that should prove easy of attainment, given the continued drift of population from capital- and utility-lacking rural areas to capital- and utility-requiring urban and suburban developments, and the present backlog of technological change. When population shall have begun to decline (probably shortly after 1950 in the United States) capital requirements, on the basis of

[33] See W. B. Reddaway, *Economic Journal*, XLVII (1937), pp. 297–307; also article by writer, this journal, III (1936), pp. 10–13, and relevant references there cited.

[34] See testimony of A. H. Hansen, in *Hearings On Unemployment And Relief*, pursuant to S. Res. 36, seventy-fifth Congress, third session, 1938, II, pp. 960–65.

[35] G. Colm and F. Lehmann, *Economic Consequences of Recent American Tax Policy*, *Social Research Supplement*, I (1938), pp. 10–23.

the premises underlying the above estimates, will fall far short of $8–9 billion.

It is evident, regardless of what may be the specific theory of investment to which one subscribes, that as population passes from a positive through a zero into declining state of growth, full employment and maximum per capita income (exclusive of voluntary leisure which will increase) will prove attainable only in proportion as the economy is progressively adapted to the following structural changes which are certain to accompany a decline in population: (1) a diminution in the relative importance of those capital and durable goods industries, a large part of whose function in the past has been to provide for new increments of population; (2) an increase in the relative importance of those capital and durable goods industries suited to supply goods and services falling within the higher comfort and luxury categories; (3) a diminution in the relative importance of industries, such as agriculture, engaged in the production of consumer goods marked by a non-expansivity of demand; (4) a very marked increase in the relative production of consumers' goods and services other than those falling in the preceding category. Moreover, since it is unlikely that the economy will be voluntarily adapted to changes (2) and (4), the state will have to adopt tax and fiscal policies suited to redistribute income, and (assuming private collective investors fail in this regard) steadily expand its investment in instruments suited to produce goods and services collective in nature (e.g., recreational centers), new in type and/or risky in character. Given these policies and a dissolution of union- and industrial-monopoly barriers to the mobility of capital and labor, the decline in numbers, assuming it is stable, should not augment unemployment. If the decline is at an increasing rate (see Table III), per capita income will be greatly depressed even though employment becomes full.

IX

Whatever be the economic benefits accruing to man in consequence of a diminution in occupational and sub-regional fertility differentials, and of an improvement in the population: resource ratio (see secs. I-V above), it is certain, as H. D. Henderson has

observed, that "the declining trend of population will prove the central economic and social issue of the next generation."[36] The "declining trend" will do more than precipitate discussion: it will re-enforce in a two-fold manner the collectivistic tendencies in modern economies. For, as we have shown elsewhere,[37] short of an extreme redistribution of income, it is highly improbable that any occidental capitalistic population will or can replace itself. And, as we have indicated in the latter part of this paper, it is highly improbable that a free enterprise economy, however successful in a demographically expanding world, will prove at all equal to the employment problems precipitated by a continuous decline in numbers. Perhaps the redistribution of income and the collective provision of security prerequisite to the re-establishment of fertility on a replacement level will prevent the unemployment-causing oversaving feared by the Keynesians and enable a highly circumscribed private enterprise economy to function at a fairly full level of employment under conditions of approximate stationarity of population.

[36] *Economic Journal*, XLVII (1937), p. 87.
[37] *France Faces Depopulation*, Chap. XI.

MONOPOLISTIC COMPETITION AND BUSINESS FLUCTUATIONS

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THE FUNCTION OF PRICE IN A COMPETITIVE ORDER

All economists, regardless of the school of thought to which they may belong or assign themselves, probably agree that the major functions of price in a competitive order are those of control and coordination. Price is a part of the law of demand and supply. If price has gravitated to the point where demand and supply are thrown into equilibrium and then a dynamic factor enters in the form of an increased demand, it is the function of price to rise until demand and supply are again in adjustment. In the field of normal value if the cost of producing a reproducible good declines, price is expected to fall in harmony with reduced cost and establish a new equilibrium. Furthermore, this would undoubtedly happen if production and exchange took place in a frictionless economy marked by "free prices, with wages and other elements of production cost completely flexible, with labor and capital completely mobile."[1]

THE NATURE OF MONOPOLISTIC COMPETITION

No one can look about upon the economic world in which we find ourselves without being keenly cognizant of the fact that we we do not live in a frictionless world of free competition and flexible price. Our modern economy is marked by frictions of many types, by rigid prices administered by government or business organizations sufficiently unified and powerful to control supply and regulate price. As to the factors in production, land is immobile; large segments of capital are fixed and specialized; and much labor is incapable of transfer whether due to the possession of a

[1] F. C. Mills, *Prices in Recession and Recovery*, p. 440.

specialized skill, to sentimental ties or to the lack of funds with which to effect a transfer. It is this relatively rigid world of frictions and inflexibility with which we have to live and which we are called upon to analyze.

Whereas one of the major functions of competition is to keep price related to cost, we all know that the major purpose of monopoly is to break the connection between cost and price. Monopoly is designed to "charge all the traffic will bear" regardless of cost. Where does monopolistic competition stand in this connection between pure competition and pure monopoly? On this point there is a wide variety of opinion. Edgeworth maintained that for duopoly and oligopoly price is ever fluctuating and indeterminate. Cournot held that duopolists would reap maximum profit if we assume conditions of a straight line curve when the two competitors placed upon the market a supply equal to two-thirds of a completely competitive supply; triopolists would supply three-fourths as much as competition and oligopoly with nine competitors would produce nine-tenths as much as would be available under pure competition. He held that "As the number of sellers increases from one to infinity, price is continually lowered from what it would be under monopoly conditions to what it would be under purely competitive conditions, and that, for any number of sellers, it is perfectly determinate."[2]

An entirely different view from either that of Edgeworth as Cournot is taken by Chamberlin with respect to oligopoly as a part of his general analysis relating to the theory of monopolistic competition. It is his contention that where business men are far-sighted so that present decisions are made by forecasting the probable future effects of any price and production policy upon other producers in the same field then oligopoly will approximate the same supply and price as monopoly. "If the sellers are three or more the results are the same so long as each of them looks to his ultimate interest. There is no gradual descent to a purely competitive price with increase of number (as Cournot contended). The break comes when the individual's influence on price becomes so small that he neglects it."[3]

[2] Edward Chamberlin, *The Theory of Monopolistic Competition*, p. 34.
[3] *Ibid.*, p. 48.

Although this theory of monopolistic competition is relatively new, Chamberlin's contention is rapidly gaining recognition and acceptance. The major point in his argument is that we do not jump from monopoly price and output restriction as soon as two or more competitors enter the same field, but that the price and production pattern tends to resemble monopoly far more than competition until the number of producers in any given field becomes so large that no one corporation or entrepreneur is large enough to have significance with respect to the whole.

If this theory of monopolistic competition is valid, then the presence in any field of a dominant corporation large enough to have significance tends to be destructive of competition and competitive price. Furthermore, oligopoly or any arrangement whereby a few large companies supply a given market will tend to restrict output or adjust supply to a maximum net revenue point not unlike monopoly even though there is no agreement or understanding among them.

The point of major significance involved in the distinction between competition and monopolistic competition is the technique utilized for purposes of control and coordination. As indicated above, competition tends toward capacity production and an equilibrium between demand and supply through flexible prices. Monopolistic competition tends to achieve equilibrium by holding prices relatively rigid and restricting the output to the demand which will be effective at the pre-determined price. Herein lies a matter of great significance. On the one hand, the controlling and coordinating force is a flexible price, and on the other, a flexible volume of production.

MONOPOLISTIC COMPETITION AND TECHNOLOGICAL CHANGE

The fear of technological unemployment is as old as the Industrial Revolution. In 1767, the neighbors of James Hargreaves organized a mob, broke into his home and demolished his "Spinning Jenny" because they had heard that it would do the work of eight spinsters. Indeed, Dame Rumor has it that they left the house shouting "Technological Unemployment." In 1816, the textile town of Nottingham was troubled by night raiders known as the "Luddites," who destroyed the machinery that was robbing the spinners and weavers of their jobs.

Yet, dynamic as was the period of the Industrial Revolution, yielding a continuous stream of new machines to supplant labor, the economic order absorbed them and met the adjustment with a minimum of suffering and unemployment. The logical explanation for the absorption of technological progress is well known. It runs about as follows: (1) Intelligent business men introduce machinery if and when it reduces cost. (2) If competition is effective, cost reduction is followed by price deduction. (3) If price falls, more goods are bought, particularly in fields characterized by a relatively elastic demand. (4) If more goods are bought, displaced men will have to be recalled to produce them. (5) If more goods are produced, more raw materials will be needed. (6) If machines do the work of men, men will have to make the machines.

The above logic proceeds from the hypothesis of effective competition. How is the picture altered when monopoly enters the field? As indicated above, the major purpose of monopoly is to break the connection between cost and price. Therefore, when a monopolistic industry introduces machinery or other labor-saving devices and thereby reduces cost there is no guarantee whatsoever that reduced cost will be followed by reduced price. But, if prices are not reduced the quantity demanded and consumed cannot increase; no additional raw materials are needed and none of the former workers are recalled to help supply a greater market. Thus, monopoly steps in to break the entire chain of events by which progress repairs itself. Furthermore, the same logic applies to monopolistic competition since it also tends toward monopoly price and adjusts supply to demand by control of output.

Although opinion may differ as to the extent and degree of monopolistic competition now obtaining, we may confidently conclude that "The more direct the connection between enhanced purchasing power and productive energy released by new techniques, the less the maladjustment and the more efficient the utilization of the new techniques. The less direct the connection, and the more diffused the transmission of new purchasing power to released productive energies, the greater and the more protracted are the resulting disturbances likely to be."[4] In other words, abstract theory or the logic of cause and effect would teach one to

[4] F. C. Mills, *op. cit.*, p. 441.

expect that technological unemployment and business fluctuations resulting from the dynamics of change would be mild and unimportant if competition were prevalent and equilibrium sought by flexible price and capacity production; conversely, that technological unemployment and business fluctuations resulting from the dynamics of change would become increasingly severe, as business moved in the direction of monopolistic competition with prices relatively rigid and equilibrium sought by means of flexible production.

Although the entire nineteenth century was continuously and incessantly dynamic, with machinery and labor-saving devices following fast upon the heels of each other in all branches of trade and commerce, yet, jobs increased faster than population and a higher per cent of eligible workers was employed in 1900 than in 1800. Furthermore, according to Mills, this trend continued up to 1914 or the beginning of the World War. But for some reason or other the trend was reversed during the war with the result that progress did not repair itself nor the technologically displaced worker find re-employment during the prosperous decade of the twenties. We here submit two tables based upon the data collected by the National Bureau of Economic Research.

As we observe and interpret the tables above, we find ourselves in agreement with Professor Kreps of Stanford University, who says "The central fact that emerges is that over the 34-year period from 1899 to 1933, the productivity of the direct labor employed in the manufacturing industries had increased 130 per cent, 43 men in 1933 being able to produce as much as 100 men did in 1899.

"Who got the increased product? In the period from 1899 to 1914 the consumer, especially the farmer, mostly in the form of lower prices for manufactured goods. While output per worker increased 30 per cent, the real income of those engaged in manufacturing increased only 3 per cent per worker. The exchange value of manufacturers' services went down by amounts ranging from 12 to 23 per cent. Employment consequently increased, 700 new men being employed by manufacturing industries for every 100 men displaced by technological advance."[5]

[5] Review of Mills' Study by Theodore J. Kreps, *Quarterly Journal of Economics*, August, 1937, pp. 691–2.

Quite the reverse was the case during the post-war period. Whereas, the productivity per worker increased even more—43 per cent, as a matter of fact between 1919–1929—real prices to the consumer fell very little. This was because the margin of profit between cost and sale price grew wider and wider. The period was

TABLE I

CHANGES IN PRODUCTIVITY AND THE FORTUNES OF MANUFACTURING PRODUCERS*

	(PERCENTAGE)		
	1899–1914	1914–1929	1929–1933
Change in output per worker, or per man hour worked	+29.6	+48.6	+19.0
Change in real returns, per worker employed, or per man hour worked, of wage earners, manufacturing plants	+4.8	+36.9	+15.5
Ownership and management, manufacturing plants	+2.2	+61.5	+15.2
All agents of fabrication	+2.8	+51.3	+15.4

* Source: F. C. Mills, *op. cit.*, p. 443.

TABLE II

CHANGES IN MANUFACTURING PRODUCTIVITY AND THE FORTUNES OF CONSUMING GROUPS*

	(PERCENTAGE)		
	1899–1914	1914–1929	1929–1933
Change in real per unit cost of fabrication, in effort expended by producers	−22.8	−32.7	−16.0
Change in real per unit cost of fabrication to buyers of goods intended for human consumption:			
Farmers	−20.9	+15.2	+50.1
Wage earners, general	−23.4	−27.1	−13.8
Salaried workers, manufacturing	−11.8	−17.6	+12.5
Primary producers, non-agricultural	−0.1	+20.9	−1.5

* Source: F. C. Mills, *op. cit.*, p. 447.

marked "by an increase in the margin representing fabricational and distributional costs; . . . by low returns and deficient purchasing power of important classes of primary producers; . . . by high prices of articles intended for use in capital equipment; . . . by a plateau of high prices for finished goods intended for human con-

sumption."[6] In the existence of this plateau of high prices of goods ready for use "we have a very significant feature of the post-war decade. . . . It involves a transference of purchasing power to fabricators, a reduction in the purchasing power of primary producers and of those ultimate users (consumers and industrial users of equipment) who do not profit from the enlarged fabricational margin."[7]

What was the result of this increasing margin between the cost and price of manufactured goods? What happens when the gains of technological improvements are not shared with farmers and city consumers in reduced prices? The answer is given by the National Bureau of Economic Research. "Quite the most important result was unemployment, only 91 men being employed in manufacturing for every 100 men displaced, even during the prosperous period from 1923 to 1929."[8]

Why Technology Repaired itself before the War, but not After. Statistical evidence has been given to show that prior to the war reduced costs were passed on to consumers in reduced prices and that employment expanded with the introduction of machinery instead of contracting. After the war, reduced costs were not passed on to consumers, and employment did not expand but contracted as labor-saving devices were introduced. Here is a phenomenon greatly in need of explanation. The conclusion reached by Mills and those associated with him was that competition was fairly general before the war and prices quite flexible and responsive to changes in cost. Following the war, these conditions no longer obtained. The rise of "price regulation, monopolistic, and semi-monopolistic control, trade agreements, extensive valorization effort,—these and other influences tended to render price a less sensitive agency for the transmission of economic intelligence."[9] ". . . Business conventions, monopolistic powers, legal restrictions, contractual obligations, . . . and rigid monetary charges tended to freeze great areas of the price system. It was these

[6] F. C. Mills, *Prices in Recession and Recovery*, p. 432.
[7] F. C. Mills, *op. cit.*, p. 60.
[8] Kreps' Review of Mills' Study, *Quarterly Journal of Economics*, August, 1937, p. 692.
[9] F. C. Mills, *Economic Tendencies in the United States*, p. 557.

frictions that prevented the prompt and full utilization of technical improvements."[10]

The same idea was stated in much more vigorous fashion by Harold G. Moulton, Director of the Brookings Institution.

> The development of trade associations in the 1920's was systematically encouraged under the leadership of the United States Department of Commerce. Indeed 'stabilization' was one of the fundamental policies of the Hoover regime—the stabilization of prices being regarded as a means of preventing disorganization and hence as a key to stable production and permanent prosperity.
>
> The evolution of industrial policy in recent times has thus served in substantial measure to prevent or impede the functioning of the competitive price mechanism. That is to say, over an ever-widening segment of the economic system the process of persistently expanding purchasing power by means of price reductions (as technological changes drive costs downward) has been checked. Thus one of the primary agencies of adjustment upon which the capitalistic system was supposed to rely has in substantial degree ceased to be operative.[11]

As a result of this drive on the part of business men for stabilization through trade associations, and finally for outright repeal of anti-trust legislation, "The necessity of progressive price reductions as a means of expanding purchasing power and markets appears to have been forgotten, alike by business managers and economic statesmen. The conclusion is inescapable, however, that in so far as the effort to stabilize prices is effective the broad distribution of income upon which continuous economic expansion depends is circumvented."[12]

Let us now pause to make a few important observations in the light of the historical data just presented. First, the industrial system absorbed technological progress without serious difficulty before the war but has not since. Second, employment increased faster than population before the war and has not since. Third, competition was keener and more general with prices more flexible before the war than since. Fourth, reduced costs were passed on

[10] F. C. Mills, *Prices in Recession and Recovery*, p. 31.
[11] H. G. Moulton, *Income and Economic Progress*, p. 138.
[12] *Ibid.*, p. 140.

to the consumer in reduced prices to a greater degree before the war than since. Fifth, business fluctuations tended to be less violent and depressions less prolonged before the war than since. Is not one justified in concluding that we are dealing here with facts and phenomena causally related? Those associated with the National Bureau of Economic Research and the Brookings Institution, after extended research and analysis, have come to that conclusion and the present writer concurs in their opinion.

We are well aware that there are honest and able writers advising us to make our economic structure less competitive. There are pressure groups urging the relaxation of our anti-trust legislation. Yet, if logic may still be trusted, and if credence may be given to the evidence submitted by Mills and Moulton, then it would appear that "The Problem of Business Equilibration" is made vastly more difficult by the growth of business organizations with power to create sticky price structures and frozen price areas within the economic system; that equilibrium and capacity production would be more nearly approximated if competition were more general and more of the prices flexible; that our depressions would become shorter and less severe if we would turn our backs upon the monopolist's formula of "economic stabilization through price stabilization," and turn our faces toward the competitive formula of "stabilized production through price flexibility."

MONOPOLISTIC COMPETITION AND THE RATE OF WAGES

Thus far we have indicated the way in which monopolistic competition contributes to unemployment and business instability by curtailing the real income and purchasing power of consumers by a failure to share reduced costs by reduced prices. Let us now analyze another phenomenon inherent in monopoly and monopolistic competition wherein it becomes evident that labor is exploited and weakened in purchasing power because wages fall below marginal productivity.

For fifty years and more the prevailing and generally accepted theory of wages has been that of marginal productivity, best stated perhaps by that great American economist, John Bates Clark. According to him, wages tend to be determined by the specific value of the specific product, attributable to the final unit employed. It was unnecessary for labor to organize, or struggle

for equality of bargaining power in order to receive wages equal to marginal product. Enlightened self-interest on the part of employers would lead each one to continue hiring labor and bid against his fellow competitors so long as the specific value of the product created by one laborer was in excess of the going rate of wages and this expansion and competition would go on till marginal productivity and the rate of wages met in equilibrium. Of course, it must be recalled that marginal productivity was based on rigid and rugged assumptions, such as perfect competition, mobility of factors and flexibility in price, and no slack in the system. Production would expand till all available units of labor and capital were employed. Unemployment and idle factories cannot be fitted into the marginal productivity analysis. Based on the assumptions made, we would not care to challenge the basic validity of this theory. What revisions must be made for conditions of monopoly and monopolistic competition?

Perhaps the first clear statement of the fundamental revision necessary to make the marginal productivity theory of wages fit into conditions of monopoly and monopolistic competition was made by Chamberlin in a paper read before the American Economic Association at Philadelphia in December, 1933.[13] Under conditions of monopolistic competition, wages are determined not by *marginal product* but by *marginal value product*. In his latest writings Chamberlin calls it "marginal *revenue* product." Under conditions of pure competition wages tend to be determined by marginal product which is found by multiplying the additional units added by the last laborer by the price per unit, making the necessary deduction, of course, for costs other than labor costs. Under conditions of monopolistic competition, wage rates are determined by marginal *value* product which "refers to the added value —the total value (price per unit multiplied by the number of units) when the last unit of the factor is used, less the total value when it is not used."[14]

Marginal Productivity and Marginal Value Product Under Conditions of Approximate Monopoly. In order to make this vital distinction stand out in bold relief it seems expedient to resort to mathe-

[13] See *American Economic Review Supplement*, March, 1934, pp. 23–27. Also Chap. VIII of *Monopolistic Competition* (3rd ed.).

[14] Edward Chamberlin, *op. cit.*, pp. 23–4.

matical demonstration. We will first assume monopolistic competition in which a few factories or productive units are so closely held and administered as to function as a virtual monopoly. A further element essential to clear distinction between marginal product and marginal value product involves the degree of elasticity in demand which we shall assume would be greater than unity by a ratio of two to one. We will again assume that this compactly held and controlled enterprise is producing 1,000,000 units and selling them at a dollar per unit for a total of $1,000,000. One more laborer is then added who in a year's time produces 1,000 units, increasing the total to 1,001,000. In other words, he increases the quantity available by 1/1000 and since elasticity of demand is two to one, the price falls 1/2000 or to .9995 per unit. Therefore, the monetary value of the thousand units created by the additional worker equals $999.50. If we again assume that approximately 80 per cent of the cost is labor cost and 20 per cent is for all cost other than labor cost, we may say, with reasonable accuracy, that the value of the labor was $800 and the value of other factors $199.50. Setting forth this data in tabular form it stands as follows:

Value of 1,000,000 units @ $1 per unit........	$1,000,000.00
Value of 1,001,000 units @ .9995 per unit....	1,000,499.50
Value of the 1,000 new units @ .9995 per unit.	999.50
Costs other than labor costs................	199.50
Marginal productivity of the final worker who produced 1,000 units..................	800.00
Marginal value product equals value of total output after marginal worker was hired ($1,000,499.50) minus value of total output before he was hired ($1,000,000) minus all additional costs other than labor costs ($199.50) or.........................	300.00
Therefore:	
Marginal productivity equals..............	$800.00
Marginal value product equals............	$300.00

From this it is clear that under conditions of perfect competition and all other assumptions usually associated with the marginal productivity theory of wages, the worker's wage would be $800.

Under conditions of pure monopoly the worker's wage would not be in excess of $300. Under monopolistic competition the wage would be somewhere between these two limits, but if we accept Chamberlin's view that prices under monopolistic competition would run much closer to monopoly price than to competitive price then the worker's wage would be much closer to $300 than to $800.

Marginal Productivity and Marginal Value Product Under Conditions of Approximate Free Competition. In contrast to the previous analysis, let us now assume 100 independent producers producing 10,000 units apiece per year. This would total as before, 1,000,000 units at a dollar apiece for a total of $1,000,000. Now let one of these producers add one laborer who increases the total output for his employer from 10,000 units to 11,000 units.

Assuming the same elasticity of demand as before, price will fall to .9995 and the monetary value of the 1,000 additional units would be $999.50. Deducting from this all costs other than labor costs of $199.50 the marginal productivity of the laborer would again be $800.

But the marginal value product for this particular entrepreneur would be the value of the total output after the final worker was hired or $10,994.50 minus the total value of the product before he was hired or $10,000 minus all costs other than labor costs or $199.50. Thus, the marginal value product would be $795. In tabular form it would stand as follows:

Value of 10,000 units at $1 per unit	$10,000.00
Value of 11,000 units at .9995 per unit	10,994.50
Value of 1,000 new units at .9995 per unit	999.50
Costs other than labor costs	199.50
Marginal productivity of the final worker who produced 1,000 units	800.00
Marginal value product equals value of total output after marginal worker was hired ($10,994.50) minus value of entire product before he was hired ($10,000) minus all costs other than labor costs ($199.50) or	795.00
Therefore:	
Marginal product of labor equals	800.00
Marginal value product equals	795.00

The reason for the wide difference between marginal value product where one hundred firms compete, and marginal value product when one firm produces all, is due to the fact that in one instance the entrepreneur must offset the gain from one worker by the decline in value of only those units previously produced in his own plant without the new worker (in the case above, 10,000 units). The monopolist, on the other hand, must offset the increased value created by the new worker by the decline in the value of the total supply previously produced (in the case above 1,000,000 units). In each instance, marginal value product determines the maximum worth of the final laborer to his employer. But under competitive conditions the difference between marginal value product and marginal productivity is all but imperceptible, whereas under conditions of monopoly or monopolistic competition, the difference becomes extremely great. This is what the theoretical economists mean when they state that under competitive conditions, where each business unit is so small with respect to the entire industry as to have little or no significance, each producer looks upon the demand curve as horizontal instead of sloping downward and to the left.

It should now be clear why monopoly or monopolistic competition creates such a serious maladjustment in the economic order by distorting the whole system of functional distribution. Labor, unless it organizes to a degree of monopoly power similar to business, receives wages far below marginal productivity and consumers face prices unrelated to costs. Buying power is thus reduced in two vital quarters, and an equilibrium for demand, supply and price is achieved by a severe contraction in supply.

Unquestionably, Chamberlin's distinction between marginal productivity and marginal value product represents a contribution of major significance to the theory of wages. Unless laborers work for employers who are keenly competitive, wages in no degree even approximate marginal productivity. In fact, marginal value product registered as large as it did in the case presented above, only because we chose to present it under conditions of high elasticity in demand. Had we assumed elasticity equal to unity, then the marginal value product created by an additional worker after conditions of monopoly price and revenue had been reached, would

have been zero. No matter how low a wage the worker might be willing to accept, the employer could not afford to hire him because a one per cent increase in volume would yield a one per cent decrease in price. Therefore, total value for the entire output would remain unchanged and marginal value product would be zero.

The tragedy, however, which is created for labor by conditions of monopolistic competition, lies not primarily in the fact that wage rates become lower. The real tragedy lies in the failure of employers to stay in the market and bid for the unemployed labor available. Where monopolistic competition prevails and elasticity of demand is equal to or less than unity, there is no pecuniary inducement, after the point of maximum profit has been reached, for employers to add more workers, *even if they may be had for nothing*. No wonder Moulton in his study of *America's Capacity to Produce* and *America's Capacity to Consume* found *slack* in the system! No wonder Mills found correlation between the decline of competition and an increase in unemployment!

MONOPOLISTIC COMPETITION AND THE BUSINESS CYCLE

This is neither the time nor place in which to develop or defend any special theory of the business cycle. Yet, virtually all students of business cycles agree that prosperity calls for a condition of balance and proportion. No genuine prosperity can long endure if any large segment of the population or important factor in production is inadequately remunerated. Therefore, if monopolistic competition decreases the purchasing power of consumers by output restriction and the maintenance of high prices; if the wages of labor are computed upon the basis of marginal value product in place of marginal product; then it works a maldistribution of income, a concentration of wealth and poverty, thus creating the stresses and strains within the economic order which lead to crisis and depression. Furthermore, monopolistic competition by continuing to work for balance and equilibrium in the economic order by wilful adjustment of supply to demand at high and rigidly administered prices prolongs the depression and retards recovery. Hence, we believe that Chamberlin's *Theory of Monopolistic Competition* supplies an excellent theoretical vehicle for the explanation

of the peculiar shift in the distribution of income, and the incidence of gains from progress linked with *The Decline of Competition* as observed by Burns,[15] Moulton, and Mills.

OBJECTIONS CONSIDERED

1. *Increasing rigidity in prices only reflects increasing rigidity in costs.* Statistics and tables from the study made by Mills for the National Bureau of Economic Research were submitted as evidence that post-war prices had been less flexible than pre-war prices. We indicate no sacredness or virtue in flexible prices *per se*, but if rigid prices arise as a result of the decline of competition or growth of monopoly so that the gains from technology are not shared with consumers, if reduced costs are not passed on in reduced prices because of the rise of monopolistic competition, and men lack for employment and consumers lack goods, then rigid prices do become a matter of major social concern.

However, there are those who tell us that rigid prices are a result of the structure of modern industry; that with the increasing size of plant and more capitalistic methods of production, a higher and higher per cent of a manufacturer's costs have become *fixed* costs, and rigid prices are merely an automatic by-product of rigid costs. Plausible as this statement may appear, the writer believes that the exact opposite is the case, as is so ably presented by Alfred Marshall in his analysis of prime and supplementary costs. By his analysis it was made clear that when depression comes, or demand declines and prices fall, only those can close down who can get out from under most of their costs by doing so. On this point Garver and Hansen have asked if it is ever profitable to operate at a loss.[16] The answer is "Yes." Where fixed costs are high and must still be met, even if the plant is closed, then the deficit is less if production is continued and the products sold at a price which yields anything in excess of out-of-pocket or prime costs, than if the factory is closed and fixed costs continue.

Where costs are flexible, output restriction and price maintenance are easy, but where a high percentage of costs are fixed

[15] A. R. Burns, *The Decline of Competition.*

[16] Garver and Hansen, *Principles of Economics*, p. 169.

overhead, there is no bottom to prices short of a price that just covers prime costs. One of the main reasons why manufactured products are less flexible in price than agricultural products is that the manufacturer can eliminate a vast number of out-of-pocket costs—variable expenses in the form of wages and costs of raw material—by closing down. But by closing down he restricts output and is able to keep prices relatively rigid. The farmer, on the other hand, has little less expense when restricting output or closing down than when farming at capacity. Since his costs are highly rigid, production tends to be at capacity, and the flex is in the price. There is no principle of economic theory that needs to be given greater emphasis and currency than the point that high overhead or rigid costs lead to more flexibility in prices, rather than less. The rigid cost defense of rigid prices is not valid. Indeed, one might coin an economic law as follows: The more rigid the costs, the more flexible the price, and the more flexible the costs, the more rigid the price. Of course, this law is valid only for competitive conditions. Monopoly always tends to flex the output rather than the price. But, any such admission leads to the inevitable conclusion that it is restricted competition that relates rigid costs to rigid prices. Otherwise, the two vary inversely, not directly.

2. *Increasing rigidity in costs makes imperative a decline of competition.* A second defense of rigid prices is based upon an argument the exact opposite of that considered in the preceding section. According to this group, the immediate effect of fixed costs is fixed and full production but exceedingly flexible prices. At least, such would be the pattern of production and prices under conditions of rigid costs if effective competition prevailed. But this direct relation between fixed cost and flexible prices operated as a powerful stimulant to competing producers in the various fields to organize themselves into trade associations, cartels, or holding companies in order to avoid the rigors of price competition by reaching some degree of unity of action bearing upon production quotas and price. Of course, a monopolist with high fixed overhead would not expand output and break the price during a depression, for, as indicated above, he knows that the demand curve

slopes downward and to the right, and that he meets the depression more successfully by restricting output and maintaining price than by maintaining output and reducing the price.

Here we find, so the writer believes, a partial explanation, at least, for the evolution of the post-war period. First, the increasing size of the business unit characterized by a higher and higher ratio of capital to labor has led to an increasing percentage of fixed charges or overhead costs. Secondly, high fixed charges under conditions of competition makes competition more severe and prices more flexible. Thirdly, in the atmosphere of a political administration and government era favorable to big business and unfavorable to anti-trust legislation or enforcement, there developed in the decade of the twenties an epidemic of trade associations and cartels with power to administer prices and control output. And it is through the intermediary force of monopoly and monopolistic competition that rigid prices and rigid costs have been brought into direct correlation.

As indicated above, this movement has gained great headway and obtains over wide segments of our economic life. Some industrial fields, and agriculture in particular, continue to be highly competitive, and it was this coexistence of one area characterized by rigid prices and controlled production alongside competitive areas characterized by flexible prices and capacity production which was one large factor, at least, in creating the unbalance that terminated the prosperity near the end of the decade of the twenties.[17]

Some, having observed this evolutionary tendency in modern industry toward organization and rigid prices, have proposed that all industries be organized and prices administered, if not by voluntary association, then by government assistance. This contention has been well refuted by Professor Slichter. "Organized restriction of output has been applied on a large scale to agriculture during this depression and to a small extent through the codes to several other fields. It has been regarded by many persons as a way of maintaining or increasing the demand for goods. Of

[17] For an explanation of the way in which rigid, administered prices, through monopoly power, force flexible, competitive prices to fluctuate more violently, see the author's work on *Value Theory and Business Cycles*, p. 208 (2nd ed.).

course, reduction of output is exactly what happens on a broad scale in most non-agricultural industries during every depression. Each producer tries to save himself by producing less—which means that he disburses less and reduces the demand for other products. Obviously a general organization of scarcity, whether imposed by processing taxes, codes, or other devices, would simply make the depression worse. In fact, it would make the depression permanent, for recovery can come only through an expansion of production."[18]

3. *Harmonize rigid and flexible prices by monetary management.* Another suggestion for handling rigid and flexible prices has been advanced by Gardner Means. His proposition is that since some prices tend to be rigid and inflexible then money and credit control should be introduced to sustain otherwise flexible prices at the administered rigid price level. In presenting his position we quote as follows:

> Inflexible prices in the modern economy thus present a major monetary problem. If full and effective use of resources is to be obtained, the disorganizing influence of money changes must be limited by keeping flexible and rigid prices in line with each other so that a general drop in production in the inflexible area will not develop from this cause. Theoretically, this could be done either by readjusting inflexible prices whenever the flexible prices got out of line or by holding the flexible prices in line with the inflexible ones by monetary control. In practice, the first of these methods would involve a tremendous administrative task of forcing frequent price changes in those industries in which prices are administered. It is doubtful if such a method could prove successful however much time and effort and power were exercised. The second method of maintaining price balance is the one considered here.
>
> This method calls for treating the group of inflexible prices as a tableland around which the price structure is to be built. If the level of flexible prices lifts above the level of inflexible prices, money restriction would be in order to bring downward pressure on the flexible prices. If flexible prices fall seriously below the level of inflexible prices, an increase in the volume of money is called for to bring upward pressure on flexible prices.[19]

[18] Sumner H. Slichter, *Towards Stability*, p. 111.

[19] Caroline F. Ware, and Gardiner C. Means, *The Modern Economy in Action*, pp. 81–82.

Despite the very high regard in which the writer holds Dr. Means and much of his valuable work, he is convinced that Means is here guilty of a serious major error. Either he must assume that the administration of prices, which results in rigidity of prices even if accomplished by restriction of output, is wise and defensible or else that it is an evil which cannot be cured and, therefore, must be endured. In either case, nothing is to be done with respect to rigid prices, but monetary control is to be used to put flexible prices in harmony with them.

The position taken by Dr. Means would seem to reveal a basic misconception as to the nature and cause of rigid prices. Now, if the only force which does or can cause the general level of prices to rise or fall is a change in the quantity of money, then it would follow that if the price level fell, let us say 10 per cent, because of a contraction of the currency, and furthermore, that because some of the rigid prices fell not at all others were forced to a fall of 20 per cent then one might contend that the flexible prices could be brought back to a parity with rigid prices by monetary inflation.

But the point raised by Mills and Moulton and given major consideration in this paper concerns itself with a general reduction in average costs because of a general advance in technology. Under such conditions, if competition is effective, average prices for goods would fall because the average costs had fallen. If, however, trade associations or other monopolistic powers and price administering forces become powerful enough to maintain prices in the face of reduced costs then it would follow that only the competitive or non-administered prices would fall. The writer insists that any disparity arising between the prices of goods produced under competitive conditions and those produced under conditions of monopolistic competition cannot be brought to parity by inflation or any form of monetary management. Most rigid prices are not rigid as if fixed by some immutable law but are rigid because competition has declined; they are administered by human volitions and administered in such a manner as to make the net margin between gross income and cost as large as possible.

Under such conditions, if the money managers deliberately inflate the currency to make the flexible prices rise to the tableland or plateau of administered prices, what guarantee have we that the "price administrators" in the so-called rigid price fields will

not set new price schedules as promptly as such adjustments take place among the flexible prices in competitive fields? Was this not precisely what happened in the early stages of the New Deal? When the dollar was deliberately weakened in order to effect a rise in the general price level—which objective was definitely realized—did not the prices which had remained relatively rigid during the deflation from 1929-33 suddenly come to life and move upward quite as fast on the average as those which had fallen most? Was it not one of the great disappointments of New Dealers that the substantial rise in the general index level of prices was not the result of recovery in the price of those which had fallen most but also of the stepping up of prices among those which had fallen least? Of course, some depressed prices rose faster than the average, especially certain agricultural products, but that was because government intervention through the A.A.A. gave to agriculture a degree of centralized control comparable to that already achieved by private enterprise in many of the industrial fields. The severe drouth in the Middle West also assisted. There is little evidence to indicate that industries characterized by monopolistic competition, which meet depression and deflation by restriction of output and the maintenance of rigid prices, will meet known and planned monetary inflation by a continuation of previous prices and adjust wholly through an expansion of output.

CONCLUSION

For these reasons, we believe that much of the discussion in recent years centering around flexible and inflexible prices has been largely irrelevant to the real problem involved. It is beside the point to argue that flexible prices are the "saints" and rigid prices the "sinners" or even vice versa. What really is relevant, in a dynamic era characterized by rapid and phenomenal reductions in costs through technological change, is that prices should be related to costs. Furthermore, if and when competition is preserved, price reductions follow cost reductions speedily and quite completely, for one of the major functions of competition is to relate price to cost. But if restrictions on competition are allowed to develop and expand, prices will not fall, for the major function of monopoly is to break the connection between cost and price and charge "all the traffic will bear." These divergent results are

achieved because under competition demand and supply are kept in balance by fluctuations in price with volume of production well sustained, whereas monopoly attempts to achieve equilibrium by fixing the price and adjusting supply to demand through control and restriction of output. One leads to capacity production, full employment, and a high standard of living for all; the other leads to scarcity of goods, unemployment, high prices, and the enrichment of the few at the expense of the many. That is why Mills has told us that "From a social point of view it is desirable that gains in productivity should bring a larger output, with advanced living standards for consumers at large, rather than special advantage for some, coexisting with idleness of important productive resources. These ends may be most readily attained through a reduction in the selling prices of the finished goods immediately affected by the productivity gain, a reduction equivalent to the saving in cost of production."[20]

By way of final comment the writer readily concedes that effective competition cannot be, and should not be, preserved in all industries and for all commodities. There are social monopolies arising from peculiar properties inherent in the business. Any attempt to set the price of public utility services in cities, or railroad rates, by the competitive technique would be absurd. Our contention is that, if and when we do find monopolistic areas where competition is no longer effective in fixing the price and the power to administer prices independent of costs has been achieved, the welfare of the nation and the future stability of business require that one of two things happen. Either monopolistic power should be destroyed and competition reestablished, which is the best solution wherever possible, or governmental commissions should be created with adequate legal power and a competent staff of price economists and cost accountants to see that reductions in cost are followed by reductions in price in order that the gains from technological progress shall not become the profits of the few. The suggestion by Means that the flexible prices of goods competitively produced can be brought to a parity with the administered prices of goods monopolistically produced by monetary management reveals a fundamental misconception of the basic problem involved.

[20] F. C. Mills, *Prices in Recession and Recovery*, p. 465.

THE AMENDED RAILWAY LABOR ACT

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The amendments to the Railway Labor Act of 1926 enacted by Congress in 1934[1] represent the culmination of 45 years of experience with legislation dealing with industrial relations on the railroads. This slow but steady evolution of public policy toward labor relations on the railroads has resulted in a law which has been characterized as "the most advanced form of Government regulation of labor relations that we have in this country" and one which provides a "model labor policy, based on equal rights and equitable relations."[2] Certainly a law that merits such high praise as this is worthy of careful consideration.

Just what significant changes have been made in the law of railway labor by the 1934 amendments? Has railway labor had any new rights and privileges conferred upon it? Have employers suffered any curtailment of their rights and privileges? Have there been any new duties and responsibilities imposed upon employers or employees by this act? What new machinery has been set up for the adjustment of labor disputes on the railroads? Are company unions and "yellow-dog" contracts illegal under the terms of this act? Must an employer recognize and "bargain" with any labor organization the employees select? And does "bargaining" or "dealing" with these representatives mean a written collective agreement must be negotiated? Does the act provide for compulsory arbitration in case the parties in dispute fail to reach an agreement?

These and other questions, fundamental and far-reaching in labor relations, are raised by the 1934 amendments to the Railway

[1] 48 Stat. 1185.

[2] *First Annual Report*, National Mediation Board, (1935) p. 1.

Labor Act. An examination of these amendments, therefore, would appear to be timely and desirable in so far as they provide answers to the above questions.

I

The Railway Labor Act of 1926[3] was the result of dissatisfaction on the part of both the railways and their employees with the Railroad Labor Board. This act, which was sponsored jointly by the carriers and the railroad workers, was an attempt to formulate a labor policy for the railroads based upon the experience and lessons learned from previous legislation. In the first place it was made the duty of the railway management and the employees to exert every reasonable effort to make and maintain agreements and to settle all disputes in conference by conciliation if possible. This provision obviously implied that collective bargaining was to be the normal channel through which agreements were to be reached. To strengthen further this implication that collective bargaining was to be the principal agency in negotiating agreements, was the provision guaranteeing to employers and employees alike the right to choose individuals or organizations as their representatives, "without interference, influence, or coercion."[4] Provision was also made for setting up voluntary boards of adjustments for interpreting agreements, and finally a United States Board of Mediation was established to mediate disputes involving changes in wages, rules, or working conditions. This board had no power to hand down decisions or to settle representation disputes. It was purely a mediating agency designed to help bring the men and management together in a peaceful settlement of their disputes. If mediation failed, the board was required to attempt to induce the parties to submit their dispute to arbitration; and if this failed, the board could request the President to appoint an emergency fact-finding board to investigate the situation and

[3] 44 Stat. 577 (1926).

[4] Section 2, Subdivision (3). This section provided that "representatives, for the purpose of this Act, shall be designated by the respective parties in such manner as may be provided in their corporate organization, or unincorporated association, or by other means of collective action, without interference, influence, or coercion exercised by either party over the self-organization or designation of representatives by the other."

report upon it. The *status quo* was to be maintained for sixty days while the emergency board was investigating and reporting its findings.

Whether or not railway labor had acquired any new rights or privileges under the 1926 act remained unsettled until 1930. The question of how far labor's powers of collective bargaining had been strengthened turned largely upon the interpretation of the provision guaranteeing to employees the right to designate representatives of their own choosing "without interference, influence or coercion" by the railroad managements. This provision obviously added nothing to labor's bargaining strength if employers, by the use of such devices as the company union, could prevent the men from being represented by "regular" trade unions. The meaning of the terms "interference, influence, or coercion," was also badly in need of interpretation and clarification.

In 1930 the United States Supreme Court handed down an important decision interpreting the Railway Labor Act of 1926.[5] The Court held that the evidence in this case was ample to support the conclusion that the organization set up by the company was not representative of its workers, and that the company had attempted to coerce the employees into accepting it and rejecting the established union—a procedure the court held to be in express violation of the provisions of the 1926 act guaranteeing to employees "representatives of their own choosing." The court, in defining the terms "interference," "influence," and "coercion" as used in the 1926 act said, "The phrase covers the abuse of rela-

[5] *Texas and New Orleans Ry. vs. Brotherhood of Railway Clerks*, 281 U. S. 548. In this case the Texas and New Orleans Railway Company had refused to deal with officers of the Brotherhood of Railway and Steamship Clerks, the established trade union which had represented the clerks in all their dealings with the railroad since 1918. The company had organized a union, and insisted that the company union was representative of a majority of the clerks. Evidence was submitted to the court to show that the railroad had aggressively solicited membership in the company union, had paid employees who were active in promoting its development, and had discharged leading representatives and officers of the independent union from the service. Alleging that these activities constituted interference, influence, and coercion in the selection of employee representatives, and were therefore in violation of Section 2 of the Railway Labor Act, the Brotherhood sought an injunction against the company and certain of its officers, restraining them from interfering with the clerks' organization and from displacing the union as a mechanism for selection of the employees' representatives. The case finally reached the Supreme Court.

tions or opportunities so as to corrupt or override the will" of the workers. The evidence was so unmistakable in this case that the company had attempted "to corrupt or override the will" of the workers that the court ruled this action to be in definite violation of the Railway Labor Act, and hence the company union set up by the railroad was an illegal organization.

Although the Railway Labor Act specifically provided that employees must be free to deal with management through "representatives of their own choosing," the act did not specify that these representatives must be chosen by members of a recognized trade union rather than by an independent company union. And while the court, in the case mentioned, held that the activities of this company did constitute an interference with the liberty of the employees in the selection of their representatives, it should be stressed that nothing in this decision implied that railroad company unions were illegal *per se*. As far as this decision was concerned, there was no reason to believe that a court, clearly convinced of the representative character of a company union, and of the absence of coercion in its formation, would regard negotiations between its officers and officials of a railroad as being in conflict with, or in violation of, the Railway Labor Act. This case did, however, apparently make impossible the resort to the shop committee subterfuge as a means of avoiding negotiations with established unions. And finally the court in ruling that the right to designate representatives of their own choosing without interference by the management was a property right which could be protected by proceedings in equity, seemingly strengthened railway labor's legal bargaining position very materially.

II

Despite the clarification and enlargement of labor's legal rights which the Texas and New Orleans decision brought, the railway employees experienced a progressive decline in their collective bargaining power in the next few years.[6] For this decline there

[6] This was especially true of the railroad workers outside the train service. The Big Four unions (engineers, firemen, trainmen, and conductors) have always enjoyed superior bargaining strength because of their strategic position in the railroad industry and because of their effective organization.

were several reasons, but by far the most important one was the business depression which began in 1929. Railroads, faced with high fixed charges and shrinking revenues, intensified their efforts to reduce operating costs in an effort to avoid receiverships and failures. Increased pressure was exerted to reduce wages and modify working agreements.

Under the 1926 law, the interpretation of agreements was left to the voluntarily-established regional adjustment boards composed of representatives of both employers and employees. Although these boards frequently failed to agree upon their interpretations of agreements, before the depression a strike threat was usually effective in breaking a deadlock. But after 1929 the threat to strike was no longer effective and the railroads' interpretation was nearly always accepted. Furthermore many railroads, in the desperate struggle to avoid receiverships, took advantage of the increased bargaining power which the depression had brought to increase their control over their employees by all the legal devices at their command. Company unions, which were not illegal *per se* under the 1926 act as pointed out above, grew in number and importance during the early years of the depression. Many employers initiated, encouraged, financed, and in other ways gave aid to "inside" organizations of their employees to the injury of "outside" trade unions. "Yellow-dog" contracts were used freely by a considerable number of carriers in further discouraging regular trade-union membership.

Disputes over the designation of employee representatives during this period was another prolific source of grievance. Under the 1926 act disputes over the designation of employee representatives could be dealt with by the old United States Mediation Board only by agreement of both employers and employees. The carriers agreed to an election conducted by the board but nine times in six years.[7] This inability of the old United States Mediation Board to settle representation disputes plus the frequent denial by railway management of the authority of representatives chosen by their employees, and the refusal to "treat" or "bargain" with

[7] See testimony of W. N. Leiserson, member of the National Mediation Board, at Hearing by National Labor Relations Board in the case of Jones and Laughlin Steel Co. (No. 419, Oct. 1936; *Governmental Protection of Labor's Right to Organize*, National Labor Relations Board, Division of Economic Research, Bull. No. 1, Aug. 1936, p. 50.

these representatives, created sufficient unrest on the part of workers to threaten serious strikes.[8]

By 1933 the ability of railroad workers to organize and bargain collectively through representatives of their own choosing had been so weakened, and their grievances had become so serious, that Congress took official note of this situation by including certain labor provisions in the amended Bankruptcy Act.[9] Although these labor provisions originally applied only to roads in receivership, they were extended to cover all railroads in June, 1933, by the Emergency Railroad Transportation Act.[10] These provisions made it unlawful for any carrier "to interfere in any way with the organizations of employees or to use the funds of the railroad . . . in maintaining so-called company unions, or to influence or coerce employees in an effort to induce them to join or remain members of such company unions." Another section specifically prohibited the use of "yellow-dog" contracts by any carrier and ordered all existing "yellow-dog" contracts discarded. These labor provisions in the Bankruptcy and Emergency Acts were simply efforts to protect and guarantee to all railroad workers the right to organize and bargain collectively free from interference or coercion in the matter of their organization. The fact that these provisions were deemed necessary in 1933 to bolster labor's waning strength and prevent possible serious labor trouble on the railroads, served to emphasize further the need for a complete revision and amendment of the Railway Labor Act itself.

III

In June, 1934, Congress added the present amendments to the Railway Labor Act.[11] The far-reaching changes which these amendments made in the law of railway labor necessitates a rather

[8] See statement by Representative Crosser, in charge of the bill to amend the act of 1926 in Hearings, House Committee on Rules, 73rd Congress, 2nd Session, on H. R. 9861, pp. 10–11, 13. "The purpose of this bill is . . . to outlaw the attempt that has been made in numerous instances by employers who control alleged labor unions, and thereby, to use a slang phrase, to 'gum up the works' . . . . We have had 8 years of operation of this Act, and we have prevented many strikes. But strikes have been threatened because of the defects which have been found in this bill."

[9] Public No. 420, 72nd Congress, approved Mar. 3, 1933, Section 77, paragraphs (o), (p), and (q).

[10] Public No. 68, 73rd Congress, approved June 16, 1933.

[11] 48 Stat. 1185.

detailed examination of their provisions. The new law restated a number of propositions laid down in the 1926 act. For example, the duty of all carriers and their employees "to exert every reasonable effort to make and maintain agreements concerning rates of pay, rules, and working conditions" was reaffirmed. That conference and conciliation was still to be the primary and principal method of arriving at terms and conditions of employment was indicated by the provision that "all disputes between a carrier and its employees shall be considered, and, if possible, decided, with all expedition, in conference between representatives designated and authorized so to confer, respectively, by the carrier or carriers and by the employees thereof interested in the dispute."[12] The right of employees and carriers alike to designate individuals or organizations as representatives without interference, influence, or coercion by either party over the designation of representatives by the other was continued in the new act. But this provision was strengthened by the addition of another sentence stating that "representatives of employees for the purposes of this Act *need not be persons in the employ of the carrier*, and no carrier shall . . . . seek in any manner to prevent the designation by its employees as their representatives of those who or which are not employees of the carrier."[13] This provision was obviously aimed at the common practice of carriers of refusing to deal with "outside" labor organizations and insistence upon dealing with company or "inside" unions, and of influencing their employees to designate such "inside" organizations as the employee representatives. This additional employee protection is entirely consistent with one of the stated purposes of the act: "to provide for the complete independence of carriers and of employees in the matter of self-organization. . . . ."

The provision that "employees shall have the right to organize and bargain collectively through representatives of their own choosing" adds nothing new in itself to the existing law of labor. Workers have had the "right" to organize and bargain collectively for almost a century.[14] But as long as no corresponding duty

[12] Section 2; Par. 2.
[13] Section 2; Par. 3.
[14] Commonwealth V. Hunt, 4 Metc. (Mass.) 111, (1842).

was imposed on employers to "deal" or "bargain" with organized employees, this "right" was entirely an empty and meaningless one, except as workers were able to enforce it by their own economic power. The new act makes the right to organize and bargain collectively real and meaningful by imposing upon employers the positive duty "to treat with" the certified representatives of the employees,[15] and by prohibiting a series of activities by employers. It is made a misdemeanor, punishable by fine or imprisonment, or both, for any carrier "to interfere in any way with the organization of its employees"; to use their funds to maintain any organization of employees, or to pay representatives of employees; to deduct dues from wages for the use of any employees' organization; to require any employee to sign any contract or agreement promising to join or not to join any labor organization.[16] It is made the duty of United States district attorneys to institute proper proceedings and to prosecute, upon application of the duly designated representatives of the employees, all carriers who violate any of the above provisions, such prosecution to be without cost to the employees.[17]

While the 1926 act guaranteed to workers the right to bargain collectively through representatives of their own choosing, and prohibited influence, interference, or coercion in the choice of these representatives, it will be seen that the new act greatly expands this right into a tangible, workable reality by (1) imposing the positive duty upon employers to bargain, or "treat" with the chosen representatives, (2) prohibiting certain specifically enumerated acts as constituting "interference, influence or coercion"; (3) providing definite penalties for the violation of any of these prohibited acts.

Another important addition to the law of railway labor is the sentence in the new act providing for majority rule.[18] The significance of this provision giving sole bargaining rights to whatever labor organization is certified by the National Mediation

[15] Section 2; Par. 9.

[16] Section 2; Par. 4.

[17] Section 2; Par. 10.

[18] Section 2; Par. 4. This sentence states that "The majority of any craft or class of employees shall have the right to determine who shall be the representatives of the craft or class for the purposes of this Act."

Board as having a majority of the craft or class concerned is discussed below in connection with the enlarged powers of the new National Mediation Board.

The provision of the new act prohibiting the use of "yellow-dog" contracts by carriers represents the culmination of a long struggle by railway labor to abolish this unfair weapon of employers.[19] Organized labor and its friends were considerably heartened by the enactment of the Norris-LaGuardia Anti-Injunction Act in March, 1932,[20] because they believed that labor had at last won relief from the damaging use of injunctions in labor disputes, and particularly in the enforcement of "yellow-dog" contracts. The constitutionality of this part of the Norris-LaGuardia Act has not yet been ruled upon by the Supreme Court, but even if it is upheld, railway labor has made a definite and substantial gain by the inclusion of the provision in the amended Railway Labor Act specifically outlawing the "yellow-dog" contract. The principal legal difference here is that the new act definitely prohibits the use of "yellow-dog" contracts, and puts teeth into the prohibition by an enforcing clause, while the Norris-LaGuardia Act only goes to the remedy to enforce them. This provision, therefore, represents a real limitation upon employer rights and a consequent enlargement of railway labor's rights and immunities.

Two other very important features of the amended act deserve special mention because of the additional obligations imposed upon carriers and employees, and particularly the prohibitions imposed upon the carriers. It is made a misdemeanor, punishable by fine and imprisonment, for any railroad or its officers or agents to change the rates of pay, rules, or working conditions of its employees as a class, as incorporated in agreements, except in the manner prescribed in the agreements, or in the act.[21] It is made the duty of both carriers and employees to serve written notice by one party on the other of proposed changes in existing agree-

[19] Section 2; Par. 5. This provision makes it unlawful for any carrier to "require any person seeking employment to sign any contract or agreement promising to join or not to join a labor organization."

[20] 47 Stat. 70 (1932).

[21] Section 2; Par. Seventh.

ments, or of a desire to make a new agreement. Such notices must be acknowledged within 10 days, and within 30 days conferences must begin for the purpose of negotiating the proposed changes or the new agreement.[22] While the obligatory conferences are being held, or while a dispute is in the hands of the National Mediation Board, no changes in the rates of pay, rules, or working conditions are permitted by the carrier until the controversy has been finally acted upon by the board in accordance with the act. In addition the railroads must advise their employees by printed and posted notices that all labor disputes will be handled in accordance with the requirements of the act.[23] These limitations upon traditional employer freedom of action not only give labor protection against sudden and arbitrary changes in rates of pay, rules, etc., by management, but, coupled with the obligation of giving written notice and conferring with employees relative to such changes in existing agreements, represent a major change in the existing law of railway labor. While the 1926 law presupposed the existence of agreements between employers and employees, it did not give them any legal recognition. The amended act not only provides for the existence of these agreements but gives them legal recognition as binding contracts which cannot be lightly broken by either side. Railroad agreements today, therefore, represent contracts establishing property rights for individual employees which are enforceable through adjudication by the National Railroad Adjustment Board.

What is the legal status of "company unions" under the amended Railway Labor Act? As was pointed out above, the Supreme Court held, in interpreting the 1926 law, that any company union which did not represent the "will of the workers" was illegal. But the court in the New Orleans case did not say that company unions *per se* were unlawful forms of organization on the railroads. The legal status of company unions was still further weakened by the new act in prohibiting carriers from (1) using any of their funds to maintain or assist any labor organization, or performing any work therefore, or (2) influencing or coercing any employees

[22] Section 2; Par. Sixth.
[23] Section 2; Par. Eighth.

in an effort to induce them to join or not to join any labor organization. Thus while organizations that are really "company" organizations, and do not represent the will of the workers, are definitely interdicted by this provision, there is nothing in the new act that bars the use of independent labor organizations on the railroads. That is, the new act does not require carriers to bargain with regular "outside" standard trade unions unless the workers choose them as their bargaining agency. If the workers freely choose to be represented by an "inside" independent organization, then this organization becomes a perfectly legitimate bargaining institution, and the employee representatives may also be persons in the employ of the carriers without in any way violating the law.

IV

In addition to the clarification of the right to organize and to bargain collectively, and the provision of penalties for interference with this right on the part of the carriers or their agents, important new machinery for the adjustment of disputes was established. The old Board of Mediation was abolished, and a new National Mediation Board of three members with greatly expanded duties and powers was created. The greatest expansion in the powers and duties of the new board is in connection with employee representation disputes. These disputes among employees as to what organization they desire to represent them in dealing with the management arise frequently, and, because employers usually become involved in these disputes, favoring one organization or another, serious trouble often developed. Under the amended act if such a dispute arises among employees, it is made the duty of the new board, on request of either party, "to investigate such dispute and to certify, in writing, ... the name or names of the individuals or organizations that have been designated and authorized to represent the employees involved in the dispute, and certify the same to the carrier." In such an investigation, the Mediation Board is authorized to take a secret ballot of the employees involved, "or to utilize any other appropriate method . . . . as shall insure the choice of representatives by the employees without interference, influence, or coercion exercised by the carrier."

These provisions giving the National Mediation Board power and authority to hold elections for the purpose of settling employee representation disputes, and to certify a given organization to the carrier, changed very materially the function of the board from that of a mere mediating agency to one with judicial discretion. Thus where before, under the old Labor Act, the Board of Mediation could interfere in a representation dispute only upon the consent of both employers and employees, now it is the duty of the board to hold elections and settle the dispute *at the request of either party*,—the consent of the carrier is no longer necessary to the board action. This rather effectively eliminates the management, as a party, from any such controversies.

One other aspect of the board's expanded powers in representation disputes should be noted. The authority to designate who may participate in an employee election, coupled with the majority rule provision mentioned above, gives the board rather broad discretionary power in determining the class or craft for employee bargaining purposes. These provisions are generally regarded as insuring the continuance of craft unionism on the railways,—a form of organization long established and firmly imbedded in the industry.

The powers and duties of the National Mediation Board under the amended act with reference to mediation, arbitration, and investigation follow very closely the provisions of the old Railway Labor Act. In disputes involving changes in rates of pay, rules, or working conditions, the board is authorized at the request of either party, or on its own initiative, to "use its best efforts, by mediation, to bring them (workers and management) to agreement." If its mediating efforts fail, the board must endeavor to induce the parties to submit their dispute to arbitration. Compulsory arbitration of disputes, therefore, is not required by the act. Arbitration, being entirely voluntary, may be refused by either party to a dispute without in any way violating any of the provisions of this act. If arbitration is refused by either party, and if the dispute threatens "substantially to interrupt interstate commerce to a degree such as to deprive any section of the country of essential transportation service," the board must notify the President, and he may, in his discretion, appoint an emergency board to investigate the facts as to the dispute and report thereon

within thirty days. During this period and for thirty days after the emergency board has made its report to the President, "no change, except by agreement, shall be made by the parties to the controversy in the conditions out of which the dispute arose." The maintenance of the *status quo* while the emergency board is investigating and reporting the facts places the final reliance upon the pressure of public opinion to compel a peaceful settlement of the dispute.

A final change of considerable importance in the machinery for the adjustment of disputes was the creation of a National Railroad Adjustment Board.[24] This board is composed of 36 members, 18 selected by the carriers and 18 by national organizations of employees. Its duty is to adjust individual grievances and disputes growing out of the interpretation or application of agreements. As was pointed out above, the interpretation of agreements under the old 1926 act was left to the voluntarily established regional adjustment boards. Although frequently deadlocked, before the depression a strike threat was sufficient to break the deadlock, but in the early depression years a strike threat proved ineffective and the carriers' interpretation of agreements was nearly always followed. The amended act provides that if any division of the Adjustment Board becomes deadlocked, it is required to select a neutral referee to sit with the board until a decision is rendered. If the board fails to select such a referee, the National Mediation Board is required to make an appointment within 10 days. A majority vote of the members of a division of the Adjustment Board is necessary to make an award with respect to any dispute submitted to it, and this award or decision is final and binding on both parties to the controversy. The requirement that a neutral referee must be selected to settle a dispute when the board cannot reach an agreement is not quite the same thing as compulsory arbitration for this reason: the neutral referee must make his decision on the basis of what the parties to the controversy meant when they negotiated the working agreement, i.e., what they actually agreed upon. The referee's decision, there-

[24] Section 3. This board is divided into four divisions, each with jurisdiction over different classes of railroad employment. Each division is equally representative of employees and management. Salaries of the members are paid by the parties whom they represent.

fore, is not to reflect his opinion of how the agreement ought to be interpreted, but is to be based solely upon what the disputing parties had agreed to at the time the agreement was negotiated.

V

Although no specific penalties are provided in the amended act for failure to obey the decisions of either the Adjustment Board or the National Mediation Board, any carrier who disobeys awards of the Adjustment Board or of any arbitration board set up in accordance with the act is made subject to civil suits in Federal District Courts.[25] This definitely implied that all the duties and responsibilities established by the act could be enforced by appropriate court writs, and the United States Supreme Court recently upheld this implication in ruling upon the constitutionality of the amended act.[26]

In a broad ruling the Supreme Court affirmed the decrees of the lower courts and dismissed the contention of the railroad that the prcvision in the amended act requiring a carrier to "treat with" the certified representatives of its employees imposed no

[25] Section 3; Clause (p).

[26] *Virginian Railway Co. vs. System Federation No. 40, Railway Employees Dept. of the A. F. of L.*, 300 U. S. 515 (March 29, 1937). The principal facts in this case were as follows: In 1927 the American Federation of Labor formed a local organization, which, in 1934, demanded recognition of its authority to represent the shop crafts employees, and invoked the aid of the National Mediation Board to establish its authority. The board held an election to choose representatives for the purpose of collective bargaining with the railroad. As the result of the election, the board certified that the A. F. of L. Union was the duly accredited representative of the railroad's employees in the six shop crafts. Upon the failure of the railroad to recognize or treat with the A. F. of L. Union, the controversy was taken to the Federal District Court of Virginia for adjudication. This court found that the A. F. of L. Union was the duly accredited representative of the employees concerned; that the railroad had refused to treat with this union as the duly accredited representative of the employees; that the railroad had sought to influence and prevent its employees from affiliating with any "outside" organization by organizing a company union, the Independent Shop Craft Association, and had tried to induce its employees to join the independent association. Upon the basis of these findings the District Court granted the Federation Union an injunction directing the railroad to recognize and "treat with" the federation as the duly accredited representative of the employees. It restrained the railroad from entering into any agreement with any organization except the federation, and from interfering, influencing, or coercing its employees with respect to their free choice of representatives. Finally the railroad was restrained from organizing or fostering any organization of its mechanical department employees for the purpose of interfering with the federation. On appeal the Circuit Court of Appeals affirmed the decree of the lower court, and again on appeal the case reached the Supreme Court.

legally enforceable obligation upon the carrier to negotiate with the representatives so certified. The court said "It is, we think, not open to doubt that Congress intended that this requirement be mandatory upon the railroad employer, and that its command, in a proper case, be enforced by the courts." And further "The command to the employer to "treat with" the authorized representatives of the employees adds nothing to the 1926 act, unless it requires some affirmative act on the part of the employer. . . . . The statute does not undertake to compel agreement between the employer and employees, but it does command those preliminary steps without which no agreement can be reached. It at least requires the employer to meet and confer with the authorized representatives of its employees, to listen to their complaints, to make reasonable effort to compose differences—in short, to enter into a negotiation for the settlement of labor disputes." Compulsory negotiation, therefore, is required by the amended act.

In affirming the right of the lower court to enforce the obligations of the amended act by injunction, the court denied the railroad's contention that it could not be restrained by equitable proceedings from making agreements with any other labor organization than the one certified by the National Mediation Board. The court said, "The obligation imposed on the employer to treat with the true representative of the employees as designated by the Mediation Board . . . . is exclusive. It imposes the affirmative duty to treat only with the true representative, and hence the negative duty to treat with no other." This interpretation, barring employers from making agreements with competing minority employee organizations, is of the greatest importance in strengthening the bargaining position of railway labor. If employers could make agreements with their own minority company unions, they could, by giving the minority group more favorable terms, effectively destroy the regular trade union representing the majority of the workers.

In upholding the constitutionality of the amended act under the Commerce Clause, the court also denied the railroad's contention that the act did not apply to "back shop" employees as they were engaged solely in intrastate commerce. In broadening the concept of interstate commerce to include "back shop" employees,

the court said that, inasmuch as the employees worked upon equipment used in interstate commerce, and a strike of these employees would therefore seriously endanger or interrupt interstate commerce, it was within the power of Congress to avoid this danger by including "back shop" railroad workers in the amended labor act.

Finally the power of the National Mediation Board to hold elections in representation disputes, and certify the majority choice as the true employee representatives to the employer, was affirmed by the court, as was also the Mediation Board's interpretation of what constituted a majority. The board had ruled that a majority of those voting was sufficient to select employee representatives. The railroad contended the act required a majority of *those eligible to vote*. The court upheld the Mediation Board's ruling that a majority of those participating in the election was sufficient to select employee representatives.

VI

The peaceful record of the railroad industry during the last four years, when strikes and industrial unrest were so prevalent in other industries throughout the country, is testimony to the soundness and effectiveness of the labor policies laid down in the amended Railway Labor Act. But while there have been practically no strikes or interruptions of service, there has been no lack of labor disputes in the railroad industry. It differs from other industries only in that its disputes are peacefully adjusted with the aid of the agencies set up by the act. For the first three years of its operation, the National Mediation Board reports a total of 625 cases disposed of.[27] Three hundred fourteen of these cases were representation disputes, in the settlement of which the board held 193 elections. The remaining 311 cases involved disputes between carriers and employees regarding changes in rates of pay, rules, or working conditions, referred to by the board as mediation cases in contrast to representation cases.[28] In addition the various divisions of the National Adjustment Board report a total of 2658

[27] *First*, *Second*, and *Third Annual Reports*, National Mediation Board, 1935, 1936, 1937, pp. 18–40; pp. 4–35; pp. 7–24.

[28] The board classifies all cases subject to its jurisdiction under two general heads: (1)

cases disposed of, 1709 being decided without a referee, and 949 with a referee.[29] These were all disputes involving interpretation and application of agreements. During these three years the board reports a total of four disputes requiring arbitration boards for final settlement, the appointment of four emergency boards, and three minor strikes involving only a small number of employees and of very short duration.[30]

The number of collective agreements between railroads and their employees covering wages, hours and working conditions in force in 1935 was reported by the board as 3,021.[31] This number had increased to 3761 by 1937.[32] Two aspects of these agreements need to be emphasized. The first significant thing to be noted is the rapid decline of company unions and the rise of standard labor organizations on the railroads since 1934. Of the 3,021 agreements in effect in 1935, 73 per cent were held by national labor organizations, and 24 per cent by system associations with no national affiliations.[33] In 1937, out of a total of 3761 agreements in effect, 3,224 or 85 per cent were held by national labor organizations, and 537 or 15 per cent were held by system associations.[34]

But perhaps the most significant thing about these agreements is their importance as a stabilizing influence in labor relations on the railroads. Their importance in this respect can hardly be overemphasized and in the past has been all too frequently overlooked. The National Mediation Board, referring to these agreements as representing the "reign of law in labor relations," says "the extent to which labor relations are governed by such agreements is the measure of the extent to which law, democratically

mediation cases, which include all disputes between carriers and their employees growing out of the making of new agreements or changing existing agreements requiring mediation by the board; and (2) *representation* cases, which include all disputes among employees as to who shall be their duly designated and authorized representatives requiring investigation and certification by the board. *First Annual Report, ibid*, p. 8.

[29] *First, Second,* and *Third Annual Reports*, National Mediation Board, 1935, 1936, 1937, pp. 37–40; pp. 30–31; p. 24.

[30] *Ibid.*, pp. 30–31; pp. 32–35; pp. 17–19.

[31] *First Annual Report, ibid.*, 1935, p. 32.

[32] *Third Annual Report, ibid.*, 1937, p. 12.

[33] *First Annual Report, ibid.*, p. 32.

[34] *Third Annual Report, ibid.*, p. 20–21.

made by employees as well as employers, has been substituted for the rule of economic force and warfare in the railroad industry."[35] Certainly these cooperatively worked-out agreements have been a powerful force in the establishment and maintenance of peaceful relations on the railroads and should serve as a striking example to other industries of what might be accomplished in this direction.

Finally, the experience of the railroad industry under the amended Railway Labor Act leads us to the conclusion that there is much to be said for the characterization of this act as representing "a model labor policy, based upon equal rights and equitable relations." The crucial test of its ability to prevent strife and work out peaceful solutions to difficult problems is likely to come in the present railroad crisis. It will be a tribute indeed to the basic soundness of the act if it succeeds in preventing any serious labor trouble on the railroads in the dark days ahead.

[35] *First Annual Report*, *ibid.*, p. 36.

UNEMPLOYMENT INSURANCE AND WORK RELIEF

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I

Stimulated by the Social Security Act of 1935, every state in the Union has passed unemployment insurance legislation. While a system of state plans rather than one nation-wide system was adopted primarily to circumvent constitutional limitations, proponents of the former argued that a system composed of 48 or more independent units would provide greater opportunity for experimentation in an attempt to devise the most economical and effective system, than could be possible under one nation-wide system. At the present time the different state agencies administering the unemployment insurance acts are overburdened with the task of getting the administrative machinery functioning. Because of the depressed state of business activity, resulting in considerable unemployment of insured workers at this time, it is likely that for some time in the near future the administrators will have little opportunity to devote any time and energy to experimentation. This is the time, however, for those who are aware that only a beginning has been made toward an organized attack upon mass unemployment, to give consideration to possible extension and improvement of the system. In this paper an attempt will be made to develop one possible direction which such improvement may take.

It is unquestioned that, while the providing of financial assistance to those involuntarily idle is the first necessary step in any general attack on unemployment, the real test of success is found in the ability to provide useful employment for all those who are willing and able to work. Toward this end the insurance acts of the various states declare it to be the function of the administrative officers to take measures to promote re-employment of the

unemployed in every way feasible. In most laws nothing is said, however, about the possible or desirable approach toward the problem. Most specific on this point seems to be the Wisconsin Act which provides that:

> If the state or any of its political subdivisions during a period of unemployment either directly or through a contractor provides work which in the opinion of the commission is an unemployment relief measure and which conforms to standards of wages and conditions prescribed by the commission, such work shall be deemed suitable employment. . . . To this end the state or subdivision giving such work and wages to such an employee in any calendar week shall receive his benefits for such week, for the purpose of partially financing such employee's work and wages on such governmental unemployment relief projects.[1]

The danger involved in approaching the problem of providing useful employment on the basis proposed in the Wisconsin law is evident. It makes possible that, wherever relief work can be found which will assure an unemployed worker an income equal to that of his insurance benefits, the worker can be compelled to accept such emergency employment or lose his right to insurance. Stated in another way, it may develop into a general requirement that every unemployed worker eligible for insurance benefit payment be compelled to perform service on a relief project in return for the insurance benefits to which he is entitled. In those states in which employees make no direct contribution to the insurance fund, there might be no legal objection to this procedure. Wherever used it means, nevertheless, the defeat of the principle of insurance with regard to unemployment insurance. The student who is interested in unemployment insurance over against relief, given on the basis of a means test, must object to any infringement, in whatever form, upon the principle of insurance with regard to unemployment assistance, since any infringement will only be a first step toward bringing back the conditions which unemployment insurance was intended to abolish.

II

It is not necessary to compromise the insurance principle in order to employ on useful work those receiving unemployment

[1] Wisconsin Unemployment Compensation Act, 1935–36 text, p. 50.

compensation. To accomplish the desired end, any state unemployment compensation commission concerned with providing employment might offer to subsidize socially useful emergency work projects undertaken by governmental agencies on such a basis as follows: The commission will pay such agency a weekly amount equal to the benefit which the insured unemployed worker would receive if the agency will give employment to such unemployed person under the condition (1) that the persons so employed will be assured of weekly earnings of at least 25 per cent above the amount to which they are entitled in unemployment compensation; (2) that the work performed by such unemployed workers be on emergency work projects which have been approved as such by the commission.

The provision that persons so employed will receive earnings at least 25 per cent in excess of their insurance benefits will be an inducement to the insured unemployed workers to accept such emergency employment and will thereby permit the commission to make acceptance of such employment optional with the workers. Aside from this feature, the provision makes possible the use of public funds to aid the involuntarily unemployed and thereby to increase the often meager incomes provided through unemployment insurance. As a matter of fact it not only permits the various governmental agencies to participate, but creates an inducement to do so by providing that the participating agency will receive a subsidy up to 80 per cent of its wage bill on all the work which it undertakes.

While the commission establishes the minimum weekly earnings for each employee, it should be provided that rates of pay for the work be equal to rates prevailing for similar work in the vicinity. It might be well to delegate the enforcement of this provision to a board consisting of representatives of organized employers, organized labor, and the public.

To eliminate from such emergency work some of the most undesirable features of past relief work, the selection of workers should be turned over to the public employment service with the understanding that choice be made on the basis of physical and occupational qualifications of those certified by the unemployment compensation commission. While a person selected may refuse

the assignment without losing his right to compensation, the employing agency or its representative may reject any one of those referred to it. This makes the work similar to free contract jobs and overcomes objections often raised against work relief, as we know it to date, where efficiency is lacking because workers are assigned on the basis of need rather than of skill and where the employing agency has no means of weeding out those unemployed workers whose presence is a liability rather than an asset to the project. This plan is superior to relief work as administered in the past because it gives the operating agencies complete freedom in carrying on the job. The latter may hire supervisors or key-people from any source they desire, but, of course, are not reimbursed for wages paid out to such persons as are not at the time receiving unemployment compensation.

The right of the commission to reject a project will give it power to control three essential features of any bona fide emergency work project: (1) it can decide whether the work proposed is of a useful nature; (2) it can reject projects which in its opinion are not adequately planned; and (3) it can refuse to give its approval to any project which in its opinion is a diversion of free contract work into emergency relief work. These powers aside from giving the commission direct control over the projects to be carried out under this plan may prove of great value in calling the attention of public agencies to the desirability and need of planning emergency projects long before the emergency is at hand. The result of such advance planning, if it includes the consideration of the financial requirements for carrying out the plans, will find these agencies in a better position to start emergency work projects as soon as their use becomes desirable and in meeting the cost of the emergency projects, than has been the case in the past.

III

It is well to inquire what experience other nations have had with plans similar to the one outlined above. We naturally look first toward Great Britain which has had compulsory unemployment insurance since 1911. Surprisingly we find that throughout the 27 years of their experience with unemployment insurance, the British seem never to have considered the possibility of com-

bining unemployment insurance with emergency work projects. One possible reason for this is that compulsory unemployment insurance in Great Britain was adopted only after unsuccessful efforts had been made to solve the problem of unemployment through emergency work relief. The result has been an unwillingness to experiment further with emergency work projects.

Germany in the post-war period provided for the use of unemployment insurance funds for work relief projects. Under the system of unemployment assistance in effect prior to 1927, which cannot be classed as unemployment insurance, since, although employers and workers made compulsory contributions, benefit payment was contingent upon certification on the basis of need, the agencies administering the funds were permitted to make grants up to 150 per cent of the amount of benefits saved by providing emergency work. In addition to these grants state and federal funds, usually in the form of loans, were made available to the governmental agencies undertaking such work relief projects. With the establishment in 1927 of a national system of compulsory unemployment insurance, the provision of using insurance funds to finance work relief projects was retained. The workers were not at liberty to refuse employment offered on such projects provided the work was in line with their occupational qualifications. German organized labor did not object to this restriction upon their rights to benefits since in accordance with a provision of the Unemployment Insurance Law work relief projects were considered free contract work, which meant that the employees on such projects received the protection of the extensive labor laws. The only limitation to this protection of working standards was with regard to rates of pay, since there was a special provision that wherever the payment of rates of wages prevailing for similar work might handicap re-employment in private industry a lower maximum rate of pay might be established. Although the trade unions worked continuously for the repeal of this provision, charging that it was used to undercut rates established through collective bargaining, a survey conducted in 1928 by the Building Trades Union showed that of the 56,000 workers covered by the survey, which included about 70 per cent of all

workers employed on work relief, 92.6 per cent were paid according to their respective union scales.[2]

Denmark in the early post-war years required the unemployment insurance societies to make contributions to a central emergency fund, which was used to provide emergency employment. In other countries some attempt has been made to combine unemployment insurance with useful emergency work projects. However, there is no evidence that a large scale, successful plan has been carried out in any country. The main reason for the lack of success seems to lie in the fact that most countries were plagued with continuous large scale unemployment, which made experimentation extremely difficult.

IV

Because of the voluntary nature of the employment, the success of the plan proposed will depend to a considerable extent upon the ability to provide employment opportunities in line with the skills of those receiving unemployment compensation. A considerable portion of the unemployed will always be unskilled and semi-skilled workers, who because of their limited specialized skills will generally accept employment under reasonably fair conditions with little regard to their former occupation. For this group of unemployed, construction projects of the type carried on as relief work in recent years will probably be most appropriate. Road, park, and airport construction, conservation, and sanitation, including mosquito control and sewer construction, are types of work on which large numbers of workers can be employed and on which the major portion of the total outlay goes directly into wages.

Greater difficulty will be encountered in finding suitable emergency employment for skilled workers and for those in the clerical and professional groups. To provide socially and economically useful work for these groups, it will be necessary to change the concept of what work may be undertaken through emergency work projects. While the commissioners should refuse to approve

[2] See *Gewerkschaftszeitung*, Organ des Allgemeinen Deutschen Gewerkschaftsbundes, XXXVIII, 1928, pp. 744–45.

projects for work which in the absence of the emergency program would be undertaken with workers hired in the open market, the line should not be drawn so narrowly as to reject all work projects which might some time in the future be undertaken with workers hired in the open market.

This will open the way for projects such as have been carried on through the PWA in recent years. The work might include the construction of public buildings, schools, hospitals, water and sewer systems, electric power and transportation systems. There is good reason, however, to go further. While in the past we have been reluctant to have the government undertake activities which are normally considered as being reserved for private industry, it has become increasingly evident that private initiative has in many instances failed to meet our social needs. Thus it is evident today that adequate housing for the lower income groups will not become a reality without governmental subsidies. It is equally evident that rural electrification in thinly populated areas will not be accomplished without government assistance. Low cost housing and rural electrification, two essential activities in a 20th century America, might therefore well be carried on by public agencies, at least partly, with workers who have temporarily lost their regular employment.

While under a program as outlined above suitable employment possibilities will not be provided for all labor and craft employees who may be receiving unemployment insurance benefits at one time or another, employment opportunities will be provided for the majority. This leaves us with the problem of providing for the white collar group. Here too the WPA has shown the way. Research projects, clerical work, adult education, recreation supervision and similar work of distinct value to the community can be provided for those temporarily unemployed, if local, state, and federal agencies are willing to meet their share of the cost.

V

Objection to the whole plan may be raised on the ground that, with the payment of unemployment insurance limited to a maximum of 16 weeks in most states, effective organization of emergency work projects will be impossible. As a matter of fact at

the present time the average insured unemployed worker is entitled to considerably less than 16 weeks of benefit payments. There is no assurance, moreover, that this situation will change appreciably in the near future. This raises a problem, which, however, should not be difficult to solve. Let us assume that the unemployed will receive benefits for an average of 12 weeks. Let us further assume that it will take considerably longer than 12 weeks to complete the average project. This may mean that such projects will have a labor turnover of 100 per cent every 12 weeks. Under our proposed plan, where assignments will be made on the basis of occupational qualifications, such a labor turnover should not result in any marked increase in cost.

Another possibility exists, however. In periods of widespread unemployment, provision will have to be made for assisting the unemployed after they have exhausted their rights to benefit payments. It should be possible to develop plans under which the agencies providing such further assistance will provide the funds which will keep the unemployed worker who exhausted his insurance benefit rights in employment on the emergency work project.

This, of course, raises another interesting and fundamental question. Provision will have to be made to assist those involuntarily idle who have exhausted their rights to benefits as well as those who as yet remain outside the scope of the unemployment compensation plans. Is it not desirable, therefore, to pay to the insured unemployed the benefits to which they are entitled under the laws and to use available public funds solely for the assistance of the two groups mentioned?

Were the only purpose of providing work instead of paying straight unemployment benefits to maintain the efficiency of the idle workers, this suggestion might be accepted, since three months of idleness should not greatly decrease the industrial efficiency of the average worker, especially if he is assured of a regular, although limited, weekly income. The question to be raised is, however, whether we can afford periodically to keep large numbers of able bodied willing workers in idleness. If we cannot, we must find ways to provide for them useful employment and to provide it as soon as possible after they have become unemployed.

It will, of course, be impossible to provide such employment for every idle worker. Neither will it be practicable to provide work for those whose unemployment is expected to be of short duration. In general it may be said that projects should be planned so that they can be expanded or contracted, depending upon the number of available insured unemployed workers. While this may be difficult for projects requiring large amounts of special materials or equipment, the task should not be very difficult for the average project.

One advantage of emergency work projects under this plan over similar projects carried on in recent years is that on projects carried on under CWA, WPA, and other emergency agencies, the rule prevailed that only projects for which the major proportion of the total cost would go into wages should be sponsored. This provision was intended to give assistance to the largest possible number of unemployed with the funds available for this purpose. For the same reason hand labor was usually employed even where the use of machinery would have been more economical. These methods can be defended when over a short period of time it is the intention of those providing emergency work to assist the largest number of idle workers and to stimulate re-employment in private industry, since it is likely that equipment and materials bought, at times when most business managers are desirous of increasing their cash holdings, will reduce inventories but will not create additional private employment. In periods when business is not burdened with excessive inventories there is no reason to sponsor work projects on which a maximum of direct labor can be employed, because the funds spent on equipment and materials will create additional employment in plants from which such equipment and materials are purchased.

On the basis of the above reasoning the unemployment commissions would be justified in encouraging work projects requiring considerable amounts of equipment and materials. Assuming the projects to be socially useful, thereby justifying the total expenditure, such projects seem to have at least two advantages over projects the cost of which is primarily expended on direct labor. First, there is the possibility that work will be provided for workers in a greater number of occupations. Thus while

work on which little money is spent on materials and equipment is likely to require primarily common laborers, other construction work might in addition create employment for the various construction crafts.

The second advantage is twofold. The expenditures for equipment and materials come out of the funds provided by the sponsoring agencies. Wherever these expenditures create employment in private plants for workers otherwise entitled to benefits under the unemployment insurance provisions, this increased employment will reduce the number of benefit-drawing unemployed. In addition the income of the unemployment insurance fund will be increased by the contributions resulting from this increased private employment.

The foregoing indicates that the proposed scheme of offering emergency employment to workers receiving unemployment insurance benefits, in addition to the primary purposes of utilizing the productive capacities of workers involuntarily unemployed and of maintaining a qualified work force, makes possible the use of government aid for the purpose of raising the incomes of workers receiving unemployment insurance, without resorting to a scheme of direct governmental subsidies to the unemployment insurance funds.

We have shown that in addition a well planned program of emergency work projects may be of considerable value in accomplishing the all important purpose of creating additional work opportunities in private enterprise, whenever automatic adjustments fail to operate toward this end.

CONFEDERATE PENSIONS

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Although the Civil War ended more than seventy years ago, one direct result of that war still lives on in the budgets of 11 Southern states. When the Confederacy disappeared in the dark days of '65 the soldiers who had been wounded, maimed, or otherwise disabled in the fight for the Lost Cause had no source to which they could look for succor except the states. For many years these states were in the direst poverty and could provide only the most meager aid to the disabled veterans. The earliest benefits took the form of artificial limbs and small payments to the totally disabled. As time passed, however, benefits were gradually extended to those who were partially disabled and to the aged. In 1917 Professor Glasson made a survey of the pensions paid to Confederate veterans and widows in 1910.[1] Since 1910 there has been a tremendous increase and a subsequent decline in the volume of such pensions. Perhaps the matter is still of sufficient interest to justify a brief study.

I

In Table I the first column of figures is taken from Professor Glasson's article and shows the amount of pensions paid by the different states in 1910. After 1910, and especially after the World War, pension payments increased rapidly, and reached a peak in the years about 1928 to 1930. The second column of figures shows the pensions paid in 1929, when they were more than three times the 1910 total. The figures for 1936, given in the third column, show that payments had declined sharply and were less than half the 1929 figures, but were still approximately 50 per cent higher

[1] William H. Glasson, "The South's Pension and Relief Provisions for the Soldiers of the Confederacy," *Publications of the North Carolina Historical Commission*, Bulletin No. 23, Raleigh, 1918.

than in 1910. The last column shows the costs of maintaining homes for veterans and widows. Total benefits for veterans and widows in 1936, as shown in the last two columns, were approximately $9,000,000 for the 11 states.

Perhaps the best method of sketching the rise and decline of pension payments in the South is to review briefly the outstanding developments in North Carolina, which may be taken as a typical state. The North Carolina pension system was established in 1885 when pensions were prescribed for disabled veterans and for certain widows. The amount of the payments depended upon the

TABLE I

BENEFITS TO CONFEDERATE VETERANS BY SOUTHERN STATES

STATE	PENSIONS 1910	PENSIONS 1929	PENSIONS 1936	COSTS OF HOMES FOR VETERANS AND DEPENDENTS, 1936
Alabama	$857,092	$1,983,330	$719,329	$6,000
Arkansas	540,000	3,593,680	107,986	59,936
Florida	644,606	1,297,635	705,207	....
Georgia	937,554	1,664,701	1,156,064	14,625
Louisiana	150,000	1,654,920	1,020,135*	12,483*
Mississippi	400,000	1,418,157	503,677	43,000
North Carolina	450,000	1,337,140	578,669	25,330
South Carolina	252,102	798,011	441,581	22,244
Tennessee	500,000	779,086	639,107	3,982
Texas	500,000	3,600,829	2,149,223	111,852
Virginia	515,000	943,576	622,014	31,481
Total	$5,746,354	$19,071,065	$8,642,992	$330,933

* 1935 figures.

degree of disability but was extremely low in all cases. Thus in 1891 payments to 1,787 veterans ranged from $15 to $60 *per year*, while 2,798 widows each received $15 *per year*. The 4,585 pensioners received only $88,226. Table II shows comparable items for selected years down to 1936.

The number of pensioners, both veterans and widows, increased steadily until the peak of 17,225 was reached in 1911. In the meantime, the rates of pay had been gradually raised. After 1911 the number of veterans receiving pensions declined rapidly, falling more than 50 per cent between 1915 and 1923. Among the wid-

ows, however, the decline was much slower; whereas veterans had outnumbered widows in 1915, by 1923 the situation was reversed and by 1936 widow pensioners were approximately seven times as numerous as veterans.

Although the number of pensioners reached its peak in 1911, the increase in total expenditures had only fairly begun at that time. Beginning in 1918 there were successive increases in pension rates which raised them from a maximum of $72 per year to a uniform $365 per year in 1928. Rates for totally disabled veterans were increased during the same period from $120 to $420 per year. Widows' pensions were increased from $32 in 1915 to $100 or

TABLE II

Benefits to Confederate Veterans and Dependents in North Carolina for Selected Years

Year	Veterans		Widows		Totals		Grand Total All Benefits
	No.	Annual Rate	No.	Annual Rate	Number Pensioners	Pension Disbursements	
1891	1,787	$15-$60	2,798	$15	4,585	$88,226	$88,226
1900	3,414	14⅓-58	2,658	14.50	6,072	118,275	128,275
1911	.....	30-72	.....	30	17,225	446,718	485,618
1915	8,713	32-72	6,326	32	15,039	475,682	510,682
1923	4,111	60-100	4,932	60-100	9,043	1,007,502	1,068,502
1928	2,186	365	5,089	100-300	7,346	1,400,902	1,461,174
1930	1,716	365	4,070	100-300	5,868	1,125,342	1,180,195
1932	1,054	365	3,709	100-300	4,846	903,495	939,125
1934	632	365	3,107	100-300	3,829	713,747	737,865
1936	377	365	2,628	100-300	3,053	578,507	603,491

$300 in 1928 depending upon the class. Since 1923 there has been a steady shift of widows from the $100 class to the $300 class. Thus in 1923 there were 35 in class A and 4,897 in class B; in 1936 there were 960 in class A and 1,668 in class B. In 1927 pensions of $200 per year were provided for colored servants who accompanied their masters to the war. Another factor which caused a great increase in pension disbursements was the practice of adding names to the pension roll by legislative enactment. Particularly after 1920 this practice flourished, and hundreds of veterans and widows who could not qualify under the general law were given pensions in this way.

The North Carolina Soldiers' Home was opened with five inmates in 1890 as a private undertaking. The state made a first appropriation of $2,250 in 1891. Appropriations increased steadily until they reached a peak of approximately $61,000 in 1927. The number of inmates of the home probably reached its peak in 1917 at 209. Since that time the number has declined steadily and in February, 1938, only six veterans remained. Since 1927 expenditures have decreased from approximately $61,000 to approximately $12,500. A home for the widows of veterans was established in 1915. Annual appropriations for this home have ranged from $5,000 to approximately $15,000 per year. At present the home costs about $10,000 per year and accommodates approximately 45 inmates.

Total disbursements for veterans' benefits of all kinds in North Carolina reached a peak of $1,461,374 in 1928. Since that time pension rates have remained constant while the number of pensioners has decreased steadily and fairly rapidly, with the result that at the present time expenditures are only about one-third of what they were in 1928.

According to Professor Glasson, the total number of persons receiving pensions from all Southern states in 1910 was 121,653. Comparable figures for 1936 are not readily available for all states, but in five states the numbers have declined as follows: Louisiana, from 2,750 to 1,433; Mississippi, from 9,225 to 3,228; North Carolina, from 17,000 to 3,053; South Carolina, from 9,592 to 2,690; and Tennessee, from 7,590 to 2,055. The total for these states in 1936 was only 27 per cent of the 1910 total. Computed on this basis, the total for all the states in 1936 was probably about 32,500. Among pension receivers, widows were from five to ten times as numerous as veterans. Thus in Tennessee there were 185 veterans and 1,850 widows; in North Carolina, 377 veterans and 2,628 widows. Comparable figures for 1910 were not given.

In 1910 a few of the states paid as much as $150 per year to disabled veterans, but usually the pensions were $120 per year or less, the majority being under $100.[2] In 1936 two states—Alabama and Tennessee—paid as high as $600 per year in certain cases, while most of the states paid $300 or more. Georgia, Louisiana, Missis-

[2] *Ibid.*, p. 65.

sippi and North Carolina paid either $30 per month or a dollar per day. Arkansas, with $100 per year, paid the least because of certain factors explained below. Texas veterans and widows receive the same amount—$25 per month—but in the other states widows receive from 20 to 60 per cent less than veterans. It may be interesting to note, by way of comparison, that approximately one-half of the Union veterans receiving federal pensions in 1936 were getting $75 per month while the other half received $100 per month. Dependents of these veterans, which included widows, children, brothers, and sisters, received from $30 to $50 per month.[3] Total disbursements to 9,644 veterans and 87,543 dependents amounted to approximately $55,600,000.

In 1910 not a single state paid as much as $1,000,000 in pensions; Georgia and Alabama were the leading states with $937,554 and $857,092 respectively. In 1929 all of the states except three—South Carolina, Tennessee, and Virginia—were paying more than $1,000,000 a year for this purpose and two states—Arkansas and Texas—paid more than $3,500,000 each. After 1929, however, pension payments dropped sharply for two reasons: the depression and a rapid decline in the number of pensioners. In 1936 only three states—Georgia, Louisiana, and Texas—paid more than $1,000,000. The figures indicate that at the present time Texas is paying a larger proportion of total pensions than any state paid in the earlier years.

II

Provisions governing eligibility of veterans for pensions vary considerably in the different states, but two features are common to all: the veteran must have been honorably discharged from service in the Confederate military or naval forces and must be a bona fide resident of the state.[4] He must have been a resident of the state

[3] *Annual Report of the Administrator of Veterans' Affairs, 1936*, Washington, 1936, pp. 13, 16.

[4] The Tennessee law offers two interesting exceptions. In the first place, only ex-soldiers are eligible for pensions; ex-sailors are not mentioned. In the second place, the law states that only disabled soldiers, but both Federal and Confederate, are eligible to pension benefits. Article XII, section 4942, *Code of Tennessee, 1932*. But the next section sets up the concept of "deserving soldier" which includes "all Confederate soldiers over seventy-five years of age, who served six months or more as bona fide soldiers in the Confederate Army." These are entitled to pensions if they do not own property assessed at $10,000 or more. *Ibid*, sec. 4943. When these facts are considered, together with the fact that the Board of Pension Examiners

12 months in Arkansas, 5 years in Alabama, and 8 years in Florida. Texas veterans are eligible only if they were residents of the state on January 1, 1910; Georgia has a similar requirement with January 1,1920 as the deadline. In most cases no stated period of military service is required. Some of the laws nominally provide pensions only for disabled veterans, but the specifications are so general and liberal that practically all veterans are now covered. The North Carolina and Virginia laws provide higher rates of pay for veterans who are totally disabled. Most states specify that veterans who receive income or hold property above certain amounts may not receive pensions, but the limits have been raised so many times in recent years that they probably have little significance now.

Almost every state has its own peculiar provisions governing the eligibility of widows. Usually there are two or more classes of widows, distinguished on the basis of age, date of marriage, or physical condition, which receive different amounts. In Alabama, widows under 70 years of age receive \$10 per month, those between 70 and 80, \$15, and those above 80, \$25. The Arkansas law provides for pensions to any widow born after 1878 who is now unmarried, even though she may have married after the death of her veteran husband. It also provides for pensions to indigent widow *mothers* of veterans. Florida pays pensions to widows who married as late as 1917, and a recent Georgia law includes widows who married veterans before 1921. Mississippi provides pensions to widows ranging from \$10 per month to \$1 per day, depending on the date of marriage. Texas widows receive the same pension as veterans—\$25 per month—if they were born before 1862 and married veterans before 1910; remarriage does not preclude pension payment.

Five states—Mississippi, North Carolina, South Carolina, Tennessee, and Virginia—pay pensions to colored servants who served faithfully during the war. The payments range from \$25 per year in South Carolina to \$200 in North Carolina.

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is composed of five state officials and three ex-Confederate soldiers (or, by recent amendment, sons of ex-Confederate soldiers) it would seem that the Confederate veterans have a decided advantage in obtaining pensions in spite of the fact that the law states that ex-Federal soldiers are entitled to all the benefits of the law.

III

Two unusual and interesting developments are afforded by Arkansas and Louisiana, which borrowed funds for pension payments. Arkansas, from 1915 to 1927, levied each year a 2 mill property tax for the benefit of the Confederate Pensions Fund. This tax produced on the average about $1,150,000 per year, practically all of which was paid to veterans as pensions. In 1927 the state suffered a severe case of "credititis" and embarked on a most ambitious program of borrowing. Included in the program was a plan to borrow, over a period of seven years, $14,000,000 for veterans' pensions. The bonds were to be sold in amounts declining from $3,000,000 in 1927 to $750,000 in 1933, and were to be serviced from the Confederate Pensions Fund with its 2 mill tax.[5] Evidently it was the intention to pay the few remaining veterans and widows liberal pensions in their last years and then, after their death, to retire the bonds from the proceeds of the special tax.

For several years the bonds, bearing interest at rates varying from 4¼ to 5 per cent, were sold according to schedule and total pension payments were increased from a little more than $1,000,000 a year to more than $3,000,000. Total bond sales amounted to $9,450,000. Then came the year 1930–31, when the state faced default and could sell no more bonds. Perhaps the figures tell their own story more vividly than any words that could be employed. In 1930–31 the pensions fund received $1,410,335 from taxes, $1,868,551 from the sale of bonds and miscellaneous receipts, making a total of $3,278,886. Payments from the fund were $3,197,447 for pensions and $383,029 for debt service. In 1931–32 total receipts were $850,391 from taxes, while payments were $411,914 for pensions and $435,180 for debt service. In the ensuing years receipts increased only slightly while debt service payments continued to increase and pensions payments accordingly decreased. In the year 1935–36 the figures were: receipts, $905,096; debt service, $640,370; maintenance of Confederate Home, $59,996; pensions, $107,986. Maximum debt service requirements will be reached in 1943–44, when they will amount to $862,945. From these figures it is easy to visualize the distress that must have been created when, in the midst of the worst depression of decades,

[5] *Acts of Arkansas*, 1927. Acts 20 and 178.

aged veterans and widows who had been receiving fairly liberal pensions suddenly had their pensions practically wiped out and were thrown back on the care of their children or other relatives.

In 1936 the State Comptroller stated:

> Few pensions have been paid in recent years due to the fact that principal and interest requirements on bonds have consumed the greater percentage of income. . . . Based on the present income of the Pensions Fund, debt payments will require as high as 87% of the income until 1952 when all bonds will have matured.
>
> The minimum operating expense of the Confederate Home will be approximately 7% (based on present revenues) which will leave approximately 6% for pensions.
>
> Due to the advanced age of the pensioners and the further fact that debt service requirements will continue to consume most of the revenues going into the Confederate Pension Fund, it is recommended that the Legislature give immediate consideration to their needs.[6]

It would be difficult to find a better "horrible example" of the evils of improvident and unsound borrowing. It is easy to understand why Arkansas now pays pensions of only $100—the lowest in the 11 states.

Louisiana has been more modest in borrowing for pensions. The first bond issue, amounting to $589,260, was sold in 1929. Later issues of $2,000,000 each were sold in 1931 and 1935, making a total of $4,589,260. As in Arkansas, these bonds are serviced from a special Confederate Veteran Fund which derives its income from an ad valorem tax, the rate of which is ¾ mill. In 1935 this tax produced $942,012. In the same year pensions were paid to the amount of $1,020,135, while interest payments on bonds amounted to $169,463. For the year 1938, however, when the first principal payments become due, debt service requirements rise to $808,723; they will remain above $600,000 through 1942. The state will have to provide additional revenues for the fund or pensions will be drastically reduced. The last of the bonds will mature in 1950.

An interesting, if academic, question was raised by a prospective

[6] *State Comptroller's Biennial Report*, 1936, p. 10.

investor when he asked the Attorney General of Louisiana whether the Confederate pension bonds issued by that state were not invalid because they violated paragraph 4 of the Fourteenth Amendment to the Constitution of the United States which reads that no state "shall assume or pay any obligation or debt incurred in aid of insurrection or rebellion against the United States." The Attorney General replied that he thought that the bonds were valid beyond question. He stated, "there was never any thought of paying the Confederate soldiers for services rendered in rebellion." He claimed that all Southern states were paying pensions, not for services rendered "but in aid of a class of people who should be entitled to the same consideration from some source by reason of their inability to take care of themselves."[7]

While undoubtedly several good reasons other than payment for services in the rebellion might be found to justify the payment of pensions, the one cited by the Attorney General is not particularly convincing, because pensions were not provided for all those who were unable "to take care of themselves" but only to those in that group who were also Confederate veterans. The question raised here is a most interesting one and one which conceivably might affect the pension systems of all the Southern states. Numerous considerations could be argued on both sides of the question and it is quite likely that any court could find sufficient reasons for deciding the question either way.

IV

The development of Confederate pensions has followed the course typical of American military pensions except that the benefits in the early years were extremely meager due to the poverty of the Southern states. For that reason total benefit payments to veterans during the past 20 years or more have greatly exceeded the payments during the first 50 years after the war. In 1917 Professor Glasson estimated that benefits of all kinds to veterans from the close of the war through 1917 had cost North Carolina about \$8,250,000.[8] During the 20 years after 1917 total costs were \$18,493,691, or nearly two and one-half times the costs for the

[7] *Opinions of the Attorney General of Louisiana*, 1930–1932, pp. 79–82.

[8] Glasson, *op. cit.*, p. 71.

preceding 50 years. From the facts available this appears to be typical of all the Southern states. The bulk of these later payments were concentrated in the years between 1920 and 1931, and this fact was probably an important factor in preventing the Southern states from making another type of outlay. During this period 22 states of the Union paid out more than $350,000,000 as bonuses to World War veterans. If the Southern states had not been paying large amounts as pensions to Confederate veterans the chances are that at least some of them would have followed the lead of the Northern and Western states.

There is probably no way in which the total amount spent by all the Southern states for benefits to Confederate veterans since the Civil War can be accurately estimated, but it may be permissible to use the following crude method to arrive at a rough estimate. In the three years for which figures are given in the above table, North Carolina's payments averaged approximately 7 per cent of the total. North Carolina's total payments since 1865 have amounted to about $26,700,000. If we consider this as 7 per cent of the total for all states, that total would be approximately $381,000,000. Regardless of the accuracy of this estimate, it would seem reasonable to estimate that the total outlays of the Southern states for this purpose have amounted to between $350,000,000 and $400,000,000; they will undoubtedly reach the latter figure before the last pension is paid and the last bond canceled.

The future of these pensions is likely to be affected by the development of old age pensions under the Social Security Act. The old age assistance laws of three states—Alabama, Georgia, and Louisiana—provide that veterans and widows who meet other qualifications are eligible for, and are *required* to make application for old age pensions. Amounts paid as old age pensions are deducted from Confederate pensions. The original Arkansas act had a similar provision, but it was replaced by a new act passed in 1937 which does not mention the matter. The laws of other Southern states do not deal with the matter specifically. In North Carolina, welfare authorities have ruled that veterans may receive either the Confederate pension or an old age pension but not both.

Since the Confederate pension is the higher at present there is no temptation for veterans to change.

The significance of requiring veterans to apply for old age pensions lies in the different origins of the funds from which the two kinds of pensions are paid. Confederate pensions have been paid entirely out of state funds, whereas one-half of the funds for old age pensions come from the federal government and a part, usually 25 per cent, from the state, and the remainder from the counties. When veterans shift to old age pensions the state shifts a part of the burden of financing Confederate pensions. In Alabama, however, the state bears the counties' portion of any funds paid to veterans. In August, 1936, there were 2,281 Confederate pensioners out of a total of 10,523 receiving old age pensions in Alabama. During that month Confederate pensioners, with an average monthly pension of $22.43, received $52,175 out of total old age benefits of $113,093. The average for non-Confederate pensioners was $7.29. Thus, indirectly, the federal government is helping to pay pensions to Confederate veterans.

OUT OF THE CRACKER BARREL

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When modern food processors, figuratively speaking, took soda crackers out of barrels and began to sell them to us done up in moisture-proof, cellophaned packages, they did this in the name of sanitation and decency. But, at the same time, they made package and container design a highly technical art, and they rendered dozens of bulk products more attractive, deceptive, costly, and better known than they had ever been before. Just how wise were the processors?

The costs of food advertising are largely borne by nationally known brands of packaged goods. Of the assumed two billion dollars spent annually on advertising a wise guess has it that three hundred millions go to finance the advertisement of food products. Coffee advertising, mostly for packaged products, runs into millions, one company spending two millions a year on radio publicity alone.

The first advertised breakfast food was an oatmeal, the time was 1870, and the advertising consisted of a two-inch card. A single breakfast food now spends reputedly two millions a year in newspaper advertising and a soup company one and one-half millions in magazines. The bulk of these bills is paid by processors and distributors and packaged goods stand foremost.

The Quaker Mills Company was organized in 1877. Its 1891 advertising bill was a hundred thousand but it now spends a million a year. Then came H-O in the eighties, followed by Sunny Jim and Pettijohns; Wheatena appeared about 1890, Postum Cereal about 1895, and Grape Nuts in 1897. Meat packers first advertised packaged beef extracts.

* While the author is Editor of Scientific Publications of the United States Department of Agriculture, the present article embodies his personal opinions and is not to be construed as a statement of departmental policy.

But it was the National Biscuit Company that gave food packaging its first great impetus by taking soda crackers out of the cracker barrel. Soups, however, were the first canned foods to be advertised nationally—Huckin's in the eighties, Franco-American in the nineties. Campbell's began by spending $4,000 on streetcar cards, but it now expends about two and one-half millions a year in printed and radio advertising, and Heinz's bill is about two million.[1]

What is the worth of all this? This advertising must be paid for. Though its cost be infinitesimal, that cost, whatever it is and small as it is, operates as a sales tax which consumers pay upon each item of packaged food they buy. That is all right if the gain in convenience and sanitation equals that in attractiveness and sales seductiveness—both of which are vastly improved.

But packaging has been carried on in the disorderly, unplanned fashion so characteristic of the hurrying, heedless American. A while ago a Department of Agriculture survey of 411 retail stores in New York City showed that honey was being sold in 36 different types of containers ranging from 2-ounce glass jars to 160-pound wooden kegs, though 2½-pound tins accounted for most of the sales and 1-pound tins and 14-ounce jars for a majority of the remainder. Indeed over half of all the honey sold went out in containers of just three types and sizes!

What is more to the point, 90 per cent of all the honey sold was packaged in 12 types of containers and 19 other containers accounted for only 4 per cent of the total honey sold. Obviously then manufacturers were expending money wastefully upon containers and labels which were entirely unneeded, and this useless expense also adds up to a tax upon consumers who must finance such manufacturer hebetude. But they pay a more direct tax still on this sort of thing.

Honey in tins was usually from 10¢ to 15¢ a pound cheaper than if in glass containers of the same size. In 5-pound tins it sold at a rate of 23¢ a pound, but in 2-ounce glass jars at a rate of $1.20 a pound. What is more, 5-ounce and 2-ounce glass jars often sold

[1] *Cf.* Marion Deyoe Sweetman, *Scientific Monthly*, XLI, 1935, p. 258 ff; also a market survey carried on by Market Research Corporation and reported in *Domestic Commerce*, U. S. Dept. of Commerce, Oct. 30, 1936, from *Sales Management*.

indiscriminately at 15¢ each, while 14-ounce glass jars often sold for more than full pound containers. Here confusion entered, for the sizes are easily mistaken for one another, even though net weights appear on labels. On the other hand, the 14-ounce container often sold for so much less than the pound jar that the price charged per pound of honey was lower![2]

There is very little sense to that sort of thing. It is stupid and wasteful, and consumers must pay for it in the end too. Indeed food packages are endlessly perplexing to housewives. The housewife should know price, quality, and quantity of goods, and food containers baffle her in finding out these things. In the case of butter, of course, her taste tells her quality, the price is known, and it comes in standard packages of known weight.

But suppose she wants canned olives, where is she? She is confronted by an endless variety of packages each bearing its net weight, it is true,—but the containers come in such different forms, and even the weights confuse. What can she make out of a distracting net weight like 5¼ ounces? How can she guess the price and compare with a package containing 5½ ounces at a different price? Besides there are ounces by weight and fluid ounces, No. 1 and No. 2 cans, mere "jars" and half-pints, mere "boxes" and "½ quart net," or 13½ fluid ounces to perplex her.

The truth is there, all right (perhaps), but she is not a skilled mathematician, and she does not usually carry an adding machine around with her. In fact she would really need a comptometer. She wonders how the trade can be so stupid. Why do not these big commercial concerns which prate of service do something for her? They do. They worry about the problem now and then and that is something. One trade publication[3] got in a little batch of fairly high class worry for her in April, 1936.

It fretted enough to print an editorial on "Standard Food Containers" because the multiplicity of superfluous containers had been found a nuisance to producers, distributors, and consumers alike. Special can sizes closely approximating the capacity of

[2] *Cf.* Bulletin 554, July, 1933, "Home Marketing in California" by Voorhies, Todd, and Galbraith which confirmed somewhat earlier findings in studies carried on by the U. S. Dept. of Agriculture.

[3] *New York Journal of Commerce*, April 14, 1936.

certain standard containers were being used by many stores as "loss leaders" and produced endless distraction. Consumers were often unaware, of course, that the specially priced can they bought was low in net weight of content, for they rarely read net weights.

Some time ago the industry joined with the Division of Simplified Practices of the Department of Commerce to recommend the use of only standard containers, but the cooperative agreement (which supposedly became effective in 1935) has never been faithfully adhered to by all. Non-standard sizes are still used to procure unfair competitive advantage. Why not make for orderly competition and consumer protection as well by going in for standard container sizes?

How far along is this sort of mild deception? A few items will give us a rough idea.[4] On September 1, 1934, 27 effective food can sizes were recommended by the committee on simplification. That is more than enough. Canada legalizes and uses but 11. What is worse, many of the cans commonly used are difficult to distinguish from one another and put processors to useless added expense for special machinery, labels, and other equipment necessary to handle off sizes.

Take a specific instance: The over-all dimensions of a No. 2 and a No. 2 Special can are almost alike, but No. 2 is $\frac{1}{16}$ inch taller and it holds $\frac{8}{16}$ of an ounce more than a No. 2 Special. Yet these containers are practically indistinguishable to the consumer and they commonly sell for the same price. This item alone may reduce a large family's quantitative food supply by several pounds annually, the gain being the producer's. Some canners eliminate the No. 2 Special but others will not.

A No. 303 can of peas selling at 18¢ gives the consumer food costing 50 per cent more per pound than a No. 2 can selling for 15¢. How can a housewife figure that out when No. 303 contains 16.88 ounces and No. 2, 20.55 ounces? However, a No. 1 Tall can contains 16.70 ounces; how can the housewife distinguish that hastily from a No. 303 containing its 16.88 ounces? No. 303 can easily be confused with No. 2 for that matter, yet the former will fit snugly within the latter!

If the housewife buys a No. 303 can of string beans at 1¢ less

[4] *Consumers' Guide*, U. S. Dept. of Agriculture, V. 3, No. 18, Oct. 5, 1936.

than is asked for a No. 2 can, she still pays 15 to 20 per cent more for her beans by doing so, yet not infrequently No. 2 sells lower than No. 303! How large is "larger" and how small is "small?" How can the housewife avoid being tricked? For, generally speaking, she is not really defrauded in such cases, except where small cans are deliberately used as loss leaders or are passed off as the larger containers expected.

Fraud does enter in deliberate slack-fills, in the case of containers with false bottoms, or of bottles with depressed panels. Another common ruse is that of making the outside carton over-large and, if it is possible to use two or three containers for the food, each one of which is a bit too large for its job, the effect can be made rather stupendous. If the product is a condiment to be shaken out through perforations, and the container is unlikely ever to be opened, this slack-filling business can be carried to extremes.

All of these dubious blessings have come along to us with the great attractiveness, sanitation, and, it is said, convenience, of packaged foods. The containers are shaped variously, often deceptively. The net weights appear rather too inconspicuously on labels. It is impossible for a consumer to figure the per pound price of honey when honey comes in a wide variety of containers often stepping up by half-ounce dribbles.

Suppose eggs came in cartons containing from two to two dozen eggs each, with the actual number printed inconspicuously on the carton, with few brands of eggs really well-known, what then? The consumer would have to ascertain the number of eggs in the cartons, divide the price by that, and then multiply by twelve in order to compare prices per dozen. Obviously she is going to be fooled often, for it is quite a trick to do such sums correctly in your head.

Very often the distributor is cheated as well, as we have seen earlier, when larger containers of the same product sell cheaper than smaller ones. Yet producers and processors rarely seek to rectify the evil and it is usually some prodding from the government that sets them thinking about the necessity for standard containers. Moreover they will still start out selling a package containing a standard net weight and then stealthily reduce the net weight of contents by fractions of an ounce, retaining the package of the same apparent size and maintaining the retail price.

The consumer faces a stupendous problem. A modern mail order catalogue offers from 50,000 to 60,000 choices and there are some 350,000 items in a large metropolitan department store. A Milwaukee survey of 5,000 families made in 1930 showed that there were in use 256 different brands of toothbrushes, 164 of fountain pens, 110 of electric washers, 101 of packaged coffees, 93 of packaged butter, 87 of packaged breakfast food, 77 packaged cleansing powders, 76 packaged dentrifrices, 73 packaged shaving creams, 68 brands of mouthwash, 65 of ginger ale, and 65 of toilet soap.[5]

The same holds generally. The consumer is smothered in packaged brands. Quality is lost sight of altogether. Yet the use of definite standards would even pay business and industry. Sears, Roebuck & Company has found that sales jump every time a standard enters the catalogue. Certain powerful concerns have built up valuable equities in brand names and fear that further extension of grading and labeling will jeopardize their start on competitors. Business also gets into ruts. The government's stake here is large as it must somehow stabilize business and industry for consumer benefit and raise consumer buying power by reducing industrial waste and disorganized buying.

This all runs into money and it is doubtful whether it always pays. Often a producer must allot 10 per cent of the gross sales price for advertising nationally known brands. It is said that the trade name of one gelatine dessert is held at $35,000,000, and it maintains a market at 50 per cent higher price than unadvertised competitive products quite as good. Its advertising in 1933 is said to have cost $10,000,000 or 10¢ a case or, to the consumer, ½¢ for each package sold. Moreover, the multiplicity of brands is quite as bewildering as that of containers.[6]

But think of the sanitation and convenience! Yes? Have you kept up with the surveys carried on by the Market Research Corporation of America? The results of the 31st such survey were discussed in *Sales Management*. Again the ineptitude of the business-commercial mind was exposed. For the housewives queried were wholesale in their adverse criticisms of food packages today extant. They were satisfied with the style of containers

[5] Robert Lynd in *Advertising and Selling*, Jan. 4, 1934.

[6] *Cf.* note 1.

and the inherent value of the products, but they made trenchant criticisms indicating that producers had given little or no thought to basic packaging problems.

They demanded fewer bottles of unstable equilibrium and these occur in utter profusion. Consider the catsup bottle! Why should so lurid a condiment of such consistency be packed habitually in a tall bottle of unstable equilibrium with a neck far too small? In consequence one arrives at catsup by hammering the bottom of the bottle and, nine times out of ten, not only getting too much catsup but working ruin on the tablecloth as well.

The housewives bitterly criticized paper, tin, glass and cellophane containers which are difficult to open. They may be sanitary and seductive but getting into them is a trial to patience and requires every kitchen implement from a can opener to a screw driver with not infrequent calls upon the razor and the ice pick. Anchor tops for jars were anathema and drew especial contempt. Any kind of glass jar top that can be removed only with difficulty, and is battered in the process, offends housewives.

Many cereal, pancake flour, and other packages, while very pretty unopened, become unsanitary messes after the housewife breaks in. Some alert manufacturers intelligent enough to adopt packages fitted to consumer convenience and needs have taught housewives what can be done, but the trade as a whole is laggard and unintelligent. The trade journals are full of new designs for prettier packages and entire books are written on this art, but convenience and utility are forgotten. We read:

> The ladies like square bottles but not square tins. They're on the warpath against all manufacturers of catsup for their tall, narrow-necked bottles which are difficult to empty and which slop over the top of the bottle and turn the inside of the metal caps black. They have troubles both with emptying devices which pour too freely and those which won't pour freely enough. They hate any and all containers which result in broken fingernails and cut fingers. They like the protection afforded by cellophane and other transparent wrappings, but hate to have to struggle to find how to open them. Spouts of all kinds are much on the ladies' minds. Anchor tops are poison to one and all. And boxes which are both convenient and sanitary after they are opened are pets in almost all kitchens.

There were a surprisingly large number of comments about spouts and pouring devices. Obviously housewives like the spout idea, because so many of them ask for spouts on packages that do not now have them, but the tenor of the comments also shows that a spout that doesn't work properly is as bad as—or worse than—no spout at all from the standpoint of building consumer goodwill.[7]

Most of the things these consumers complained about are so obviously wrong that one wonders how food processors, packers, and producers, who prate continually of convenience and service to the customers, can have overlooked them. They are off on the wrong foot when they make packages, which, however alluring, must be pried into with burglars' tools. The housewife does not want a food container she has to dynamite.

It was great to take the soda cracker out of the cracker barrel. That was a public service that both made it more attractive and protected it from the chance nicotinized expectorations of the village store parliament. But it is entirely wrong to put the cracker up only in expensive packages of confusing sizes and perplexing shapes which have to be hammered senseless and torn to shreds before the cracker dust can be retrieved. It is time the food producers did something about these problems.

[7] See note 1.

BOOK REVIEWS

A History of the Business Man. By Miriam Beard. New York: Macmillan Co., 1938. Pp. vi, 779. $5.00.

This book summarizes eight years of painstaking research abroad and in this country; synthesizes a vast panorama of materials from Ur of Chaldea to San Francisco, California; impregnates the wide Sahara of business economics with the germs of constructive and critical thought about the social implications of the past, present and future of "business men"; and withal tells the tale with such engaging simplicity and fine artistry that it makes as thrilling reading as any yarn of the fictioneers.

Unlike Veblen's *Theory of Business Enterprise*, it does not propound any general thesis or economic theory, but its analyses and implications are no less devastating—and constructive. The story begins with those superlative salesmen of ancient history, the Byzantine traders; goes on to the Homeric Age, when shipwrecked Ulysses was—much to his chagrin—mistaken for a "tired business man"; traverses the medieval era of independent merchant-rulers, secure behind city walls until they sold cannon to their knightly foes; continues into the age of Renaissance festivals, the exuberant boom of the 1550's and the dark years after the ensuing financial crash, when the business man was subjected to the whims and humors of the kings of Baroque Europe. Then follows the tale of his winning of wealth through royal patent and privilege; an account of the methods of French business men under the Absolute State, fostered by Colbert in 18th century France; the story of the rise to mastery of English men of commerce under Cromwell; the emancipation of the business man from the shackles of the strong state through revolutions from Newport to Paris, and Tokio; the business rivalries growing out of Manchester's promotion of machines; an account of the growth of American enterprise from gambling in commodities in colonial times through the conflict between North and South, to the rise of our present-

day financial giants; and, finally, a psycho-analysis of the modern business man in search of a creed: the post-war dilemma confronting him as to a choice between democratization and Hitlerism, between playing the rôle of wet-nurse to fascism or of becoming a public servant without "profits".

Not content merely with the source materials of history, biography, and economics, the author has gone into the field of literature and art from Homer to Michael Angelo to Sinclair Lewis for colorful quotations and illustrations. The great business personalities of the past and present are brought alive on the printed page, presented without any cut and dried chronology, but with the rapid development of a drama and with detail that is at many points rich and at all points fascinating. Some of its lively phrases linger in the mind long after the book is closed, e.g., the reference to the ancient "readymade metal garment industry" along the Mediterranean; the comment about the rich traders of Thuringia who wore little bells on their girdles and hence could "hardly escape the charge of being a little *loud* in their dress"; the observation that, in the United States, corporations grew so vast that "like kings of Egypt, the business men were buried under their own pyramids".

With nearby parents, brother, husband, all nationally prominent scholars and writers in history, political science and economics, with a child of pre-school age, a police dog and a Connecticut farm to look after, it is not surprising that, even without the distractions of a radio or a telephone in the house, the author, as *Time* reports, had to be "goaded" into completing her distinguished book. Something of the pressure of business men for economizing time and energy and expense certainly must have forced itself on Miss Beard as she approached the practicable limits of a one-volume work. The nearer one comes to the end of the 800-page volume the more one finds, not the leisurely detail, the rich wealth of illustration, and the vivid direct quotations from source materials that characterize the earlier chapters, but summaries, generalizations, and "samplings" rather than the full story.

Unfortunately, whole fields for fruitful exploration are barely mentioned or left untouched. The world-wide havoc wrought

by Ivar Kreuger is dismissed with the phrase: "like magic came and went his riches"—seven words that are at the same time applied to the German Stinnes, the Austrian Castiglione and Bosel, the Belgian Lowenstein and the Englishman Hatry, all of whose fortunes, it is merely noted, were "built in a day like Aladdin's palace through inflation and attendant speculation". The story of the ups and downs of prosperity and depression in America and of the business men's part in them is only hinted at. The flight of American industry from the taxes, labor laws and labor unions of the large cities of the North to a short-lived business man's paradise in the South is not mentioned. The whole colorful and instructive story of American Negroes in business is omitted.

All this is more or less understandable—and excusable. But it is difficult to see how an all pervasive phase of modern business like insurance could be left almost unmentioned in a comprehensive work of this sort. The book tells the story of 'Change Alley and the South Sea Bubble without a word of the annuity sharks and the bizarre insurance bonanzas of those days (including projects to provide assurance against divorce, to insure against death by drinking rum, to assure uniformity among Protestant—or other—dissenters, to indemnify for the violation of female chastity, etc.) that preceded the world's introduction to modern life insurance values and evils. It says not a word about the churchmen who started philanthropic motivated insurance enterprises in England and America, and in the Papal State, only to give the field of life insurance—and the churchmen's atmosphere of self-righteousness—over into the hands of promoters, executives, and salesmen actuated by the altogether un-churchly motives and viewpoints that characterize the genus business man all down the ages. It mentions Dickens' account, in *Martin Chuzzlewit*, of his imaginary "Anglo-Bengalee Disinterested Loan and Life Assurance Company" without a word of its actual prototype "The Independent and West Middlesex Fire and Life Insurance Company", founded by two former smugglers who mulcted rich and poor of some £250,000 a year while they themselves lived in riotous luxury on the proceeds—only one of the many insurance

enterprises like it that operated in the spirit of those "romantic" times.

The book mentions the wastrel Hyde, his inheritance of the Equitable presidency and the insurance investigations that followed in his wake, but says not a word about his ruthless and really able father, the patron saint of American insurance salesmen, who introduced the era of frenzied competition in American life insurance that carried that institution to the heights and to the brink. It says nothing about the vast number of fly-by-night enterprises and failures with their attendant losses and hardships for policyholders that have marked the history of the life insurance business in the United States from the inflation boom of 1847 to the depression depths of 1933. Nor does it mention the wizards of management and finance who, mired in the mud of our latest and biggest depression like ordinary mortals, ran whining to state insurance commissioners to declare a moratorium on withdrawals of insurance reserves, thus making it seem as though the moratorium was *forced on them*. Nor does it say anything about the purely philanthropic spirit of the moguls who carried on the business of life insurance as "non-profit", "mutual", "cooperative" "social" enterprises "by and for the policyholders"—for $200,000 salaries and other emoluments *during the depression*.

In view of the current trend to *forms* of socialization in many fields of business while retaining *the power and the emoluments* of their business promoters and managers, the story of the business man in life insurance would seem to be particularly apropos for a history of the business man, especially it if were to end on a plane of future horizons instead of—like Miriam Beard's book—on a precipice that gives no inkling of what may be in wait for him beyond, below, or above that brink.

Chapel Hill, N. C. HARVEY LEBRUN

Werner Sombart and His Type of Economics. By M. J. Plotnik. New York: Eco Press Company, 1937. Pp. 132. $2.00.

This analysis of the economics of Werner Sombart is a very condensed summary of the work of one of the outstanding European exponents of institutional economics. The study is divided

into three parts. Part I provides a short statement of the historical milieu in which Sombart pursued his investigations of the economic process. The second part presents a resume of Sombart's life since 1863, while the third part of the analysis includes an outline of his theoretical position.

The major contribution of Sombart is his effort to provide a focus or unifying principle for institutional economics. He has gone beyond Veblen and other American institutionalists in his endeavor to clarify the nature and scope of the new synoptic economics. For Sombart, economic society is not a mechanical aggregation nor a living organism; instead it is, in Plotnik's words, "one great whole consisting in turn of smaller wholes." This economic whole is a sphere of institutional culture, and institutional economics is the science of this sphere. Sombart adopts the totality viewpoint of Marx. This leads him to view the economic system as an emerging whole, which may be analyzed at a number of different historic levels. This emerging whole or economic system, Sombart analyzes in the light of three elements: the dominant ends or aims of the economic system such as individualism or collective action, the methods of organizing the economic life of the period, and the accompanying technology. Applied to the current economic scene this means that the institutionalist would analyze our economic system, dominated as it is by corporate action and large-scale methods of production, in the light of such collective ends and aims as economic stability and economic security for the masses.

Mr. Plotnik has performed a valuable service in drawing the outline of Sombart's economic system, but it is unfortunate that he did not present a more elaborate analysis than can be given in eighty-two pages (Part III). This short treatise, however, should serve to renew the interest of American students of economics in the work of an institutionalist whose investigations do not seem to have received as much attention as they might merit. Perhaps some of the fogginess of American institutionalism would be dispelled if more attention were given to Sombart's methodology and his type of economics.

University of Maryland ALLAN G. GRUCHY

Biology And Marxism. By Marcel Prenant. Translated by C. D. Graves, with a Foreword by Joseph Needham. New York: International Publishers, 1938. Pp. xxiii, 223. $2.50.

This work, by a professor of zoology at the Sorbonne, is concerned primarily with the biological basis of Marxism and with the implications of the Marxist method for biological problems. As Needham, the Cambridge biochemist states in his foreword, Prenant's main thesis is "that the Marxist philosophy of dialectical materialism, being a sort of quintessence of the scientific method itself, is able to help the biologist both by pointing the way towards the kind of hypotheses which it will be most profitable for him to form and by indicating which questions are meaningless and which are answerable." Sprinkled with short and pertinent quotations from Marx and especially Engels, and fortified with the more recent findings of biologists, *Biology and Marxism* should prove especially useful to students of Marxism, and to social scientists interested in the philosophy of method and problems of social change.

Prenant subscribes to the orthodox Marxian view that change is the fundamental law of the universe. "Nothing is final. Whether in the sphere of lifeless matter, of living beings, of human society, or mental activity, everything contains within itself the causes that will one day bring about its destruction."

The origin of change in the biological realm is found in imperfect equilibrium between living matter and environment, this imperfection giving rise to "crises which are resolved in sudden changes of structure called mutations"—mutations which are both chromosome and cytoplasmic. Selection eliminates unfavorable mutations, thus tending to make for gradual perfection of organisation. In short, Prenant and the Marxists, viewing man as "an integral part . . . . of living Nature, within which he acts," reject both the views of mechanical materialists who stress only the action of environment, and the views of the vitalists who seek the cause of seemingly purposive change in some vital principle or entelechy. If the Marxist view is valid then, as Needham shows, the biological presuppositions of fascism and totalitarianism run "counter to the entire trend of evolution."

Duke University JOSEPH J. SPENGLER

On the Economic Theory of Socialism. By Oskar Lange and Fred M. Taylor. Edited by Benjamin E. Lippincott. Minneapolis: University of Minnesota Press, 1938. Pp. vii, 143. $1.75.

This little book consists of a thirty-eight page introduction by Benjamin E. Lippincott, a fourteen page reprint of the late Fred M. Taylor's presidential address, and the paper by Oskar Lange. It is a defense of the possibility of rational allocation of resources in a socialist economy, and is written in answer to the theoretical contentions of Professor von Mises and to the practical objections of Professors von Hayek and Robbins.

The argument consists in asserting that if the consumer and labor market were left free in a socialist economy, the utilities and disutilities there measured would make possible an accounting system based on prices set by a central planning board. Such prices would be subject to trial-and-error experimentation by the central planning board, and ultimately would become adjusted to the free markets in such a way as to prevent the appearance of surplus or deficit in production. A cost control based on such prices would be available to guide the managers of various industries in determining the amount of their output. The method is essentially that of producing until marginal cost equals the price set by the board. This type of planning in a socialist economy is not the concept held by many either within or without the movement.

Professor Lange discusses briefly the substitution of preference schedules set up by the central planning board instead of the free consumer and labor markets, and concludes that if the citizens of such a state would stand for them, they would lead to essentially the same result.

The most telling blow which Professor Lange lands against Professor von Mises is his contrast of the universal validity claimed by the Austrians for their economic laws, with their denial that such laws would be effective in guiding a socialist economy. The Austrian here becomes an institutionalist. No less startling, however, is the attempt on the part of socialist economists to justify socialism upon the premises of capitalism. Lange ignores the institutional factors which would affect prices, income, and production as much under socialism as under capitalism. Pro-

fessor Lange implies that capitalist economy is institution-ridden, while socialist economy would be guided by pure reason. This is faith rather than science.

The occasional sallies against the inconsistencies of the present order are the best parts of the book. They suffice to make it worth reading.

University of Kentucky EDGAR Z. PALMER

The Plow and the Sword: Land, Labor, and Property in Fascist Italy. By Carl T. Schmidt, New York: Columbia University Press, 1938. Pp. 197, $2.50.

After describing the regional variation in Italian agriculture, Professor Schmidt traces the reform movement through which was waged a struggle against the extreme poverty and misery of the peasants and farm workers a generation ago. Upon the verge of what might have been a successful revolution the reformers temporized and the Fascist counter-revolution swept the "propertied" classes into power. In the early stages of its growth the Fascist objectives paralleled those of the socialist reform movement, but as the various phases of the Fascist program unfolded it was found to operate "in the interest of absentee landlordship, commercialized agriculture, monopolistic finance capital." In a well documented and realistic fashion, Professor Schmidt appraises the effort to increase the production of wheat known as the "battle for bread," the reclaiming of the marsh lands, and the position of tenants and farm workers under the "corporate state." The general conclusion is that levels of living have suffered a marked decline, and that peasant proprietorship has decreased and share cropping has increased.

He concludes: "Fascism is not an escape from the dilemma of capitalism. Rather, it perpetuates the fundamental contradiction of the system of business enterprise: simultaneous development of the forces of production and restriction of their use for human needs. Armaments and martial activity, maintenance of the parasitic hierarchy of Fascist police and bureaucrats, these are themselves ultimately a staggering burden on profit-seeking enterprise. The inability to function profitably in the impoverished domestic market leads to the ever more desperate necessity of

finding external fields for exploitation. This means imperialist adventure and war."

Thus it would appear that those who contend that capitalist societies move in the direction of industrial feudalism rather than toward industrial democracy are right. In a very real sense industrial feudalism already exists in Italy. One question, however, continually arose in the reviewer's mind while reading the book: Is it likely that the integrated state controls over agriculture will continue to be weighted indefinitely in the landlord's interest, or that absentee landlordism itself will continue indefinitely? Almost certainly the improvement of the lot of the rural population awaited state action through well developed and closely knit control organizations. Whatever the original purposes and whatever the consequences to date, the Fascists have made progress in the development of that organization. The enigma of Fascism is, therefore, whether the power of the state exercised through such "corporate" integration of economic life must always favor the "propertied" interests—whether such favoritism may be essential to their *growth* but may not characterize their long run use. Professor Schmidt, noting popular support for Fascism, is skeptical of the possibility of such transition because of "the intellectual and moral stultification inevitable in such control and the barriers it throws in the way of the construction of a more rational society."

University of North Carolina J. G. Evans

The Structure of Social Action. By Talcott Parsons. Pp. xii, 817. New York: McGraw-Hill Book Co., 1938. $6.00.

In this work Professor Parsons has made the first significant study which has come to the attention of the reviewer of the process by which one type of social theory emerges from a previously existing type.

To Professor Parsons, theory is not a progressively expanding body of principles representing the generalization of an ever-widening body of fact. It is rather a system of independent but logically inter-related principles which, because of its tendency to become a closed system, limits the range of facts which can be taken into

account. Only those facts which fit into the theoretical system can be considered significant. Theory, therefore, makes no attempt to explain all known or knowable facts. It is, rather, a beam of light which plays upon the field of fact, illuminating only a part, and allowing many facts to remain in the dimly lighted periphery. Social theory develops, according to Professor Parsons, not so much from the gradual enlargement of the illuminated area as from the shifting of the beam to a new area. Thus, facts which were formerly considered insignificant now become significant while others which were formerly crucial tend to lose something of their theoretical importance.

In order to illustrate how the light beam of theory shifts to a different area of fact, Professor Parsons analyzes the works of Alfred Marshall, Emile Durkheim, Vilfredo Pareto, and Max Weber. The study shows how these men, differing in temperament and background, and starting from quite different *points d'appui*, tended to develop a common theoretical outlook. Starting from a positivistic theoretical position as it appeared in the various forms peculiar to the nineteenth century, all these men enlarged their field of observation to take in more or less of the peripheral body of fact. In doing so, the area of logical action shrank while that in which non-logical, normative, and ideational elements predominate expanded, so that a complete theory of social action could no longer be couched in positivistic terms.

This transition from a positivistic action system to what Professor Parsons calls a voluntaristic system reminds one of something that G. K. Chesterton says somewhere to the effect that the trouble with the world is not that it is a complete illogicality, nor even that it is logical. The trouble arises from the fact that it is just logical enough to get itself called logical, but still is not quite logical. To some extent it always remains unpredictable, inscrutable. It was natural that the earlier positivistic thinkers in the realm of social theory, awe-struck as they were by the majesty of natural law, should develop a view of social action which would partake of the mechanical regularity which they thought they saw in nature. But, despite their rigid theoretical formulations, experience continued to drive home the fact that there was a

considerable random element involved in social action. The voluntaristic theory which emerged was therefore one which tried to take account of these non-logical elements.

It would be interesting to have from the pen of Professor Parsons an analysis of the reason for the emergence of just this sort of theory,—whether it is to be explained in terms of its sociological background, or whether it is a development immanent in the nature of theory itself. One is reminded of the dissolving of the rigidities of nineteenth century physics into the more fluid concepts of the newer physics in which statistical probabilities take the place occupied by the older invariable natural laws. Is this new type of social theory merely borrowing the outlook of the new physics, or is it exhibiting an unavoidable tendency implicit in the development of all theory? One notices such a tendency even in the theory of the various arts. It would therefore be a pleasure to have from Professor Parsons a further analysis of this particular aspect of the problem which he has here treated so admirably.

Alabama Polytechnic Institute EARLE LEROY RAUBER

A History of the Economic and Social Progress of European Peoples. By Walter W. Jennings. Cincinnati: South-Western Publishing Co., 1936. Pp. xiii, 713. $3.50.

The author was well aware that the "Well is deep" but the water is plentiful for one equipped for the task. To be equipped one must have the ability to write, the skill to organize, a ready supply of an enormous amount of information, and the power of generalization. Taking the book as a whole the author has told the story in a simple and straightforward way with no attempt to hide the thought with words. The general organization is excellent and somewhat better than the arrangement of the details. It is rather unusual to find in one volume so many rich and illuminating facts. With respect to generalization, the book, though by no means void of philosophy, does not show an excellence in keeping with that shown by the style, the organization, and the amount of facts. The author is evidently an essentialist: he believes that beginners should be well supplied with facts before attempting to do much generalizing.

Dr. Jennings has divided the content of the book into four parts: Ancient, Medieval, Early Modern, and Modern with each part following very closely the same organization. The part on Ancient History deals with social conditions, labor, agriculture, manufacturing, and commerce. These topics, according to the evolutionary changes, are discussed in each of the other parts, but other influences—the church, foreign trade, Industrial Revolution, socialism, transportation, and financial affairs—are added to periods contemporary with their origin. The organization and development of the book describe the economic and social activities of Europe in the order of their appearance in a changing civilization. The treatment in itself is an unfolding process which goes a long way in making up for the brevity of written generalizations.

The reader's attention is attracted to several specific points. In the first place, there is only one map and it is a recent one. Several small maps showing the political status of Europe during the various periods treated would be most valuable. Second, though considerable space is given to the period between 1500 and 1800, the rise of Nationalism and Mercantilism are treated in the brief space of two and one half pages. Third, it is a Herculean task to cover both the social and economic progress of the European people from prehistoric times to the present; and such a task done reasonably well by one author should receive high commendation. Fourth, there is an unusual amount of statistical material given in a large number of tables, which contain much valuable information and should be helpful to students. Fifth, the original material contemporary with various events makes it unnecessary to require students to purchase a book of readings which is seldom read.

Louisiana State University S. A. Caldwell

Trade in the Eastern Seas, 1793–1813. By C. N. Parkinson. New York: Macmillan Co., 1937. Pp. xii, 435. $5.00.

The author makes a distinction between "maritime history" and economic and commercial history. His purpose is a narrative of the former. In his judgment the two last named studies are more or less abstractions, lacking body and soul, and removed from the actual life currents which inspire, and lead to, action.

To use his own words: "Is not this, however, a little remote from

human activities as we can picture them? . . . We wish to visualize the quayside, the ships and the bales of goods." This does not mean that Dr. Parkinson's volume is merely a series of human episodes,—quasi-history written in novel form. Far from it. In spite of his rejection of statistics as appropriate materials for his type of history he makes frequent use of figures, all the way from specific statements of the ages of young men who enlisted as cadets or recruits, to profits and losses, value of trade, and other factual data which give concretion to his narrative.

Herein is plenty of definite stuff mingled with a living story of men and women who, in one way or another, brought their lives into contact with the operations of the East India Company. Although the book contains a plethora of facts it is composed in a manner which avoids the ostentation of formal organization and tabular expression of data.

He gives us a family history of the East India Company and opens wide the closet door to reveal the skeletons. Apparently he rejects the doctrine, De mortuis nihil nisi bonum. The evils of men live after them. Unsavory episodes which are history making are as much a part of a study of the past as those which wear the crown of perfection. The author suggests somewhere in the volume that mistakes sometimes make history.

The book presents a picture of India, or better the Orient, during the period covered by the volume. We get comprehensive ideas concerning the composition of trade, the movement of goods from place to place, prices at which they sold, salaries of officers, and so on. We are informed about sailing charts and routes of travel, about trade winds and doldrums, methods of calculating tonnage, and the intrigues of officers who were permitted to trade on their own account; we learn something about shipbuilding and management of the company's affairs. Something, also, about travel on the company's vessels, and about the final blight which brought the company to an end.

Since this rather dry summary gives the reader an idea of the contents of the volume it is not necessary to enumerate chapter titles,—each of which contains a wealth of material which no title could describe.

An appreciation of this volume would be incomplete without mention of the author's expression. A gentle humor trickles through the whole work, and occasionally a bit of doubled barrelled sarcasm as with his statement: "It was only honest but stupid Sir George Barlow who lost any sleep from contemplating the balance sheet."

Dr. Parkinson has fulfilled his promise in writing a "maritime history." The coverage far exceeds the bounds which belong to the economic or commercial historian. For this every reader will be thankful.

Washington University I. LIPPINCOTT

French Indo-China. By Virginia Thompson. New York: Macmillan Co., 1937. Pp. 517. $5.00.

Indo-China is an important dependency, situated in a strategic corner of Asia. There is an extensive literature on Indo-China in French, but practically none in English. In view of the fact that the country lies in a part of the world which has attracted very great attention during the last decade or more, it is strange that no one undertook to write a general treatise on it. Such a study, long overdue, has been given the English-speaking world by Dr. Thompson in the book under review.

In six long chapters the author takes up successively Annamite Civilization, The French administration of Indo-China, The Economy of Indo-China, The Contacts of Civilizations, Peoples of Indian Culture, and Reaction to the French Colonization of Indo-China. Each of these chapters necessarily covers a large number of more or less related subjects.

It was a large task which the author set for herself, probably too large to be wholly successfully executed within the limits of a single volume. Because of its wide scope the book suffers somewhat from over-compression. Many of the subjects are developed rather sketchily. One also wishes that the author had been less niggardly with figures and statistics. Occasionally there is an annoying absence of dates. For example, the administrations of the governors general are briefly outlined, but the dates of their administrations are not given.

The work could have been improved by a sharper delineation of the chief problems which are found in all colonies, such as the problem of protecting native rights to the soil and yet giving Western agricultural enterprises access to the soil, the problem of furnishing the Western enterprises an adequate labor supply while at the same time protecting the native laborers against exploitation, the problem of imported government personnel, the problem of developing a native middle class, the problem of obtaining the funds necessary for carrying on a liberal welfare policy, the problem of the kind and amount of education, and the problem involved in the choice between direct and indirect rule, and assimilation and non-assimilation. It is not that these problems are not discussed in the book, for they are; but they are not treated as systematically as they might be, nor are they as sharply outlined as is desirable.

These shortcomings detract from the excellence of the book but they do not destroy its great value. The book is a highly valuable contribution to the literature on colonialism and the Far East. The book contains a wealth of information on nearly all phases of Indo-Chinese life and on French Indo-Chinese policy. The value of the book is greatly enhanced by an extensive and excellent bibliography.

University of Kentucky A. Vandenbosch

Morocco as a French Economic Venture. By M. M. Knight, with a preface by C. A. Beard. New York: Appleton-Century Co., 1937. Pp. x, 244. $2.25.

Two-thirds of the colonial trade of French oversea territories, an empire half again as large as the United States, originates in the Atlas Mountain region of North Africa, an area not much larger than California. French Morocco, one of the three colonies comprising French North Africa, is responsible for about one-eighth of the trade between France and North Africa. Despite its size, however, Morocco is an excellent subject for the case-study of contemporary European expansion—the last phase of that expansion which began in the latter part of the 19th century with the development of cheap transport and extreme specialization—for,

as Professor Knight shows, its economic development within the framework of an imperial economy is recent and well documented. He describes the internal and international situation of Morocco prior to its passing under complete French control in 1911, traces the transformation of the country in 1911–30, and shows how post-1929 crises strained an economy "built for good financial weather" and induced its administrators to turn to protectionism. An incisive analysis of "imperial economy" is presented in a long last chapter. The study is indexed, well-documented, and reflects the author's intimate knowledge of his subject.

Knight's detailed information, understanding of the reciprocal relation of French and indigenous culture, grasp of the complicated intertwining of politics and economics, and critical appraisal of anti-imperialistic treatises (e.g., those of Clark and Southworth) make the work under review a most valuable addition to the literature on imperialism. Knight shows, among other things, that individual colonies cannot be appraised as individual units when such colonies form more or less integral parts of larger colonial complexes; that imperial economies are not looked upon as pure business ventures, even though founded in part upon economic delusions; that uneconomic situations at times tend to breed even more uneconomic palliatives; that no French political group is disposed to jettison the colonies; that Europeans have conferred much public order and some material goods upon subject peoples at great moral expense to the feelings of the latter and unsuspected economic expense to the former.

The author's findings are significant for American foreign policy in three ways, Professor Beard points out in his preface. These findings constitute a warning to Americans interested in pulling French and European chestnuts out of the fire; evidence that the so-called "open door" does not mean "trading equality, disinterestedness, and magnanimity;" testimony that while imperialism may benefit a minority (i.e., bureaucrats, career men, military officers, lenders, merchants) in and of the mother country, the aggregate of these benefits falls far short of the expense imperialism saddles upon the mother country.

Duke University JOSEPH J. SPENGLER

Population Pressure and Economic Life in Japan. By Ryoichi Ishii. Chicago: University of Chicago Press, 1937. Pp. xix, 259. $3.00.

This book deals with Japan's major problem, population and resources, and presents in easily understandable and usable form the most recent statistical facts and computations. The history of population is traced back into the feudal period and a very full account is given of all the various trends, such as the recent advance in the age of marriage and the slight indications of lowering birth and death rates.

The question of "food-supply" quite naturally comes in for treatment. Too often this is treated as if the people were actually facing certain death by starvation. Mr. Ishii's treatment makes it clear that the question is rather one of general income for the support of a steadily rising modern standard of living.

A series of chapters deals separately with the various proposals for meeting the problem. These are Colonization and Emigration, Industrialization, and Birth-Control. The findings are not very encouraging. Emigration and colonization prove unsatisfactory because there are no satisfactory places to go. Industrialization seems more likely to succeed, but that too meets difficulties. Owing to changes in technology and organization industrialization very greatly increases output but frequently decreases employment. (All through the Orient the adoption of the modern factory often *increases* the pressure on agricultural resources because it displaces so many people from the crafts.) Again, the question of markets for manufacturers is a serious one in this age of tariffs, quotas, prohibitions, etc. Silk manufacturing is practically impossible because the chief foreign market, that of the United States, places a very high protective duty on silk manufactures but keeps raw silk on the free list. Finally, birth-control is making some progress but its effect probably will remain small for a number of years.

This is one of the best books that has appeared on the Japanese population question. It is especially useful in that it assembles in usable form the best materials that are available on the subject. When he treats the economic theory of the subject, however, the author is less happy. On page 148 he writes: "Some writers

assume that Japanese agriculture is now being operated at the stage of a decreasing marginal return, but there is no factual basis for that opinion." The plain meaning of these words is that increased numbers might be employed in Japanese agriculture without lowering the production per person: and that a decrease in the numbers employed would not improve the production per person. But if this is true there is no population problem in the country.

In a five-page section (pp. 148–153) entitled "Rural Economy Considered in the Light of the Theory of Diminishing Returns," all the presuppositions of the most elementary textbooks regarding fixity of area, similarity of conditions and technique, and measurement in quantity rather than in value, are thrown to the wind. The author applies "capitalistic methods of accounting to the agricultural management" and quotes authority for the claim that the earnings of labor and capital are very considerably lower in agriculture than in other types of economic activity. This is not a discussion of the subject of the section. Insofar as the materials presented yield any result regarding "diminishing returns" it has to do with the unwarranted sense of returns in successive seasons. The author states that while "the farmers in Japan use an increasingly large volume of vegetable manure—the volume of production of rice and other designated crops remains almost fixed" (p. 151). Using the terms in this peculiar manner he finally reaches a conclusion which logically would be opposite to that stated at the beginning. Here we read: "Our study has been concerned, in the last few pages, with proving that Japanese agriculture is operated, compared with the general standard of national economy at least, beyond the profitable margin" (p. 153). Thus the author is not concerned with "diminishing returns" at all but with comparative profits and losses in different types of activity. This is an interesting and important subject, but it is not illuminated by so confused a use of generally accepted economic terminology. Of course, the plain fact is that Japanese agriculture has been operating under conditions of diminishing returns for centuries and it continues so to operate.

One might expect to find in a book on this subject more attention given to the international distribution of resources and to Japan's right to expansion. This book is remarkably sober and restrained

in this regard. The author has confined himself to his subject and is to be commended. But in so doing he has per force left out matters upon which most readers would like to hear the judgment of economics. Nevertheless, he has acted wisely. The bearing of population and food-supply upon Japan's actions on the Asiatic continent could not be discussed without launching into a much larger field which would include besides strategic considerations many other aspects of international affairs.

University of North Carolina D. H. Buchanan

International Short-Term Capital Movements. By Charles Poor Kindleberger. New York: Columbia University Press, 1937. Pp. xi, 262. $3.00.

The thesis of this study is that short period capital movements, at least in some respects, may be explained in the same way as gold movements. In analyzing the effects of movements in funds—gold shipments and transfers of short term capital—the significant item is the net movement in the two. The approach throughout is from the point of view of the effects of such movements of funds on the national income.

The analysis is convincing. It exhibits a thorough mastery of the theory of money and of international trade. The author recognizes the fact that in practice the magnitude of the effects of a shipment of gold and of a transfer of deposits to foreign owners may not always be the same. A shipment of gold may necessitate a reduction in the quantity of bank credit more than equal to the outflow of gold. The monetary authorities are likely to be aware of this and to act on this basis. A transfer of deposits from domestic owners to foreign owners should lead the monetary authorities to take action to reduce the quantity of bank credit, for they ought to recognize the greater danger of withdrawal of a foreign owned deposit. But if the monetary authorities are not aware of this, the gross quantity of money will not be affected by the transfer. However, the transfer will involve a decrease in the quantity of active money, and will diminish the national income.

There is one respect in which the study seems incomplete to this reviewer. An analysis of the effects of short term capital move-

ments on the national income should consider not only the forces working through the quantity of active money but also the forces working through the income velocity of money. Specifically this would require a modification of the analysis of the effects of a foreign loan on the national income. If a foreign loan requires a shift of gold or a transfer of deposits to foreigners, it would induce a contraction in the national income from the monetary side. But if the foreign loan also involves an expansion of exports, it would induce an increase in the national income from the income velocity side. This second force, it may be noted, could exceed the first. That is to say, a transfer of funds by tightening the monetary supply may diminish the desirability of investment, but the larger volume of goods that can be sold may increase the desirability of investment. The net effect need not be a reduction in the national income.

Dr. Kindleberger has given to students of money and international trade a most useful contribution on short term capital movements.

University of North Carolina E. M. Bernstein

Financial Development of the United States. By William J. Shultz and M. R. Caine. New York: Prentice-Hall, 1937. Pp. xxvii, 747. $3.75.

The authors of this financial history set for themselves the task of writing a comprehensive survey of the financial development of this country. They aim to use "the widest possible interpretation" of the word "finance." Their meaning of "finance covers all factors involved in transactions in values—for the United States, all factors affecting the dollar sign." Using this interpretation, they have written an integrated history of American money and banking, public finance, tariff policy and business development.

The book is completely outlined. Each chapter is given a heading which describes the period to be covered, such as "Finances of the Silver Plated Era, 1873–1890" and "Financial Revolution—Democratic Style, 1913–1917." The chapters are made up of short sections dividing the material into topics concerning public

finance, currency, banking, and other aspects of financial history of peculiar significance at the particular time. This treatment sometimes makes the text unnecessarily choppy.

There is naturally, in a book of this scope, room for question concerning the relative space given to various topics. Some subjects that might deserve lengthier mention receive very little. The New York free banking law is treated in half a page, as is savings banking prior to 1860. The Banking Act of 1935 is described in two pages, but the changes in the Federal Reserve Board are not discussed. Federal Reserve policy might well have received more attention. On the other hand, Confederate finances, which are frequently ignored in financial histories, are deservedly given a twenty-page chapter.

There are occasional mis-statements, such as that the dollar was devalued in 1934 by 41.96 per cent (p. 675), whereas it was actually devalued by 40.94 per cent. There is a complete absence of footnote references to statements made in the text.

The authors have made liberal use of charts and tables, there being 70 of the latter. The tone of the book is enlivened by generous use of cartoons and drawings taken from contemporary newspapers and periodicals. These are valuable in helping to describe public opinion at various times. There are also many anecdotes, usually printed in footnotes, that illustrate business or banking practices at various times. Several of these are used to describe the difficulties of maintaining redemption of bank notes under early banking systems. The value of the book as a reference is enhanced by a lengthy bibliography.

Duke University WELDON WELFLING

Trends in North Carolina Banking, 1927–1937. Published by the Research Committee of the North Carolina Bankers Association, Raleigh, 1938. Pp. 152. 75 cents.

This is a unique and interesting study of the assets, liabilities, and earnings of North Carolina banks, during a period of great change. The bulk of the study is devoted to the approximately 200 "live" banks which survived to December 31, 1937. A separate section considers a sample of the banks which failed. Hence for the years before 1933 the study does not cover all banks, but

only the two groups named. The study of earnings covers only the years 1931–1937. Banks with deposits below $1,000,000 are grouped into five classes, while those with $1,000,000 and over are all placed in one class, which, in 1937, contained over one-third of all banks and over three-fourths of deposits and assets. A breakdown of this class would have been desirable.

There was a tremendous increase in the size of state banks and a great change in the relative importance of state and national banks. From 1927 to 1937 state banks decreased from 382 to 160, but showed a substantial *increase* in deposits and assets. National banks decreased from 77 to 43 and showed a heavy *decline* in deposits and assets. In all other analyses, state and national banks are not shown separately.

There are detailed studies of capital structures, deposits, primary reserves, loans and discounts, investments, earnings, expenses, and dividends. Stockholders' equity more than doubled, but declined relative to total liabilities. Demand deposits increased, and time deposits declined, in relative importance. The analysis of assets shows a strong trend toward greater liquidity, with large increases in primary reserves and government bonds and a large relative drop in loans and discounts. Earnings are analyzed to show relative amounts of income and losses realized from different classes of assets. The average gross yield on loans and discounts declined from 6.8 per cent in 1931 to 5.0 per cent in 1937. Smaller banks consistently realized above 6 per cent and occasionally above 7 per cent; the legal rate of interest is 6 per cent. Dividends, but not net earnings, are shown relative to stockholders' equity. In most analyses comparable figures for the whole country are given.

After a study of the banks which failed the committee states 14 causes of failure, among which the more important are: inadequate capital funds, chronic and heavy borrowing, inadequate primary and secondary reserves, and excessive stock investments and real estate loans.

This study is the product of the Bank Research Committee of the North Carolina Bankers Association, consisting of Messrs. C. T. Leinbach, Millard Jones, Phillip Woolcott, Warren S. Johnson, and A. D. Shackelford. Professor John B. Woosley of the University of North Carolina served as advisor to the committee and

wrote the body of the report. Both Professor Woosley and the Research Committee are to be congratulated on this excellent study; it might well be imitated in other states.

Duke University B. U. Ratchford

Technical Progress and Agricultural Depression. By Eugene Altschul and Frederick Strauss. New York: National Bureau of Economic Research, Bulletin 67, November 29, 1937. Pp. 32. 50 cents.

This closely reasoned and well documented study, with the aid of abundant statistical and other data, shows and interprets the extent of mechanization of wheat and cotton farming in the United States and appraises the direct and indirect implications of this mechanization or lack of mechanization. The authors have tentatively reached the conclusion that agriculture represented by these two major crops reacts to sudden and incisive technological changes in a manner altogether different from that characteristic of manufacturing industries, and that this difference in turn goes far to explain the peculiar cyclical behavior of commercial cropping.

The case of highly mechanized wheat farming is cited as the positive proof of the author's thesis, while that of almost entirely unmechanized cotton farming furnishes the negative proof. It is found that, in the case of wheat farming, *supply* conditions largely account for the post-war depression, while, in the case of cotton farming, once the dislocating effects of the boll-weevil had worn off, disturbances on the *demand* side are largely responsible for economic difficulties.

In the study of the mechanization of wheat farming the relation of the use of machinery, especially tractors and combines, to the optimum size of the wheat farm is strongly emphasized, without, however, losing sight of the equally important fact that optimal farm sizes are not absolutes but corollaries of fluctuating market prices. The resulting dilemma between organizational *rationale* and market price *rationale* is strikingly developed.

While this masterful analysis is built around mechanization as the central theme, no careful reader can accuse the authors of a dilettantish single-cause approach. Part III, covering approxi-

mately 8000 words, is entirely devoted to an analysis of the rôle played by factors other than mechanization in agricultural depression.

After tasting this appetizing *hors d'oeuvre* of real scholarship the reviewer looks forward to the dinner in form of the volume referred to in the preface in which the authors have given a fuller account and a more detailed analysis of the problem.

University of North Carolina ERICH W. ZIMMERMANN

Problems in Agricultural Marketing. By Deane W. Malott. New York: McGraw-Hill Book Co., 1938. Pp. xxii, 410. $3.00.

This is a case book consisting of a collection of problems designed for classroom use in a course in agricultural marketing. A short introduction, in which the author discusses some ideas relative to the general significance of the field of agricultural marketing, is included. One general conclusion is that the combined influence of all the "business judgments" of private individuals engaged in various phases of the marketing of agricultural products may be more influential "than all the agricultural reforms and platforms in our history." However, this does not cause the author to neglect the rôle of government in agricultural marketing.

The problems are divided into twelve groups classified somewhat according to the arrangement of chapters found in various text books. One group deals with problems encountered by individual farmers in disposing of their crops most profitably. There are several groups dealing with various aspects of the problems encountered by cooperative and private middlemen in conducting their business operations. Most of the attention is directed towards the management functions of such concerns, although some attention is given to broader questions involving public policy. The last group of cases deals with "National Problems of Agricultural Policy." Five problems are presented. Actually these are brief discussions of parts of the recent activities of the federal government. Some of these, such as, "Farm Credit Administration—Federal Agencies Financing Agriculture," are not always thought of as relating mainly to the subject matter of agricultural marketing.

The cases cover a reasonably wide range of situations and are

presented in an interesting style. However, various parts of the field commonly included in courses in agricultural marketing are neglected. For instance, little material is included which deals with the market news, grading, and inspection services of the federal government and other agencies. Neither is there much material dealing with the methods of selling and types of dealers handling perishable and semi-perishable products which arrive in wholesale markets from distant producing areas.

The usefulness of a book such as this depends to a considerable extent on how well the problems fit the local situations which are of most interest and importance to the students in a particular class. Many of the cases deal with products and situations which are of direct importance only to limited sections of the country. In most institutions the instructors will probably know of many problems of more significance to the members of their classes than the majority of those that appear in this book. In most cases the book will prove more useful as supplementary reading material than as the main text for a course.

Louisiana State University ROY A. BALLINGER

International Trade. By Hugh B. Killough. New York: McGraw-Hill Book Co., 1938. Pp. xiv, 622. $4.00.

Professor Killough has produced a comprehensive work on international trade, which includes a number of phases of this field. These range all the way from a historical résumé of commerce, through the various international trade doctrines, down to the commodity trade of the world, and the specific problems of leading commercial nations. The social aspects of trade are emphasized throughout the work. The effect of trade on political situations and the influence of political factors on trade are likewise stressed. There is no treatment of the methods and problems of individual traders.

In the book will be found much factual material that is useful in an understanding of the complexity of modern commerce. There is also an abundance of descriptive passages which are interesting as well as informative.

The book might be characterized as a fairly liberal interpretation

of present-day international commerce, superimposed upon a background of classical theory, subject to the restrictions of modern resource economics, and hedged around by world politics.

It is divided into eight parts. First are taken up the reasons for regional trade and the differences between foreign and domestic trade. Then follows the historical background of international commerce, with emphasis on the transition to world-wide interdependence. The activities of the old trading companies, the restrictive policies of the mercantilists, and the liberal ideas of Adam Smith, are treated. After this the commercial policies of the nineteenth century are presented, with an analysis of the respective effect and strength of industrialization, free trade and protection.

The next part passes in review the resource, commodity, and functional division of twentieth century commerce. This includes an analysis of population, power and food resources; the major groups of industrials and raw materials, such as metals, textiles, chemicals, etc; and the essential services of transportation, communication, finance and investment.

Part V seems to the writer to be the least satisfactory part of the book. This begins with a treatment of foreign trade procedure, which is inadequate, except for certain aspects of finance and exchange. The attempt is made to include likewise in this section the division of trade gains, and a description of trade restrictions and commercial treaties. Correlation and correct emphasis appear to be lacking in this part of the work.

The influences of the World War are taken up, with emphasis on boundary changes, war debts and resulting financial problems. Then follows a summary of the present commercial policies of the leading trading nations of the world today. This should be interesting to students of contemporary history. Finally, the problems confronting the United States are dealt with briefly, the chief one of these being the age-old question of economic self-sufficiency under the shadow of high tariff walls, or a more enlightened policy of trading with the world.

There is an abundance of useful data in the book, and a careful perusal of it would unquestionably add to one's knowledge of

foreign trade. However, the arrangement could be improved upon, to make it more suitable for use as a text, and more logical for the average reader.

University of Florida A. STUART CAMPBELL

Labor Problems from Both Sides. By Malcolm Keir. New York: Ronald Press Co., 1938. Pp. xviii, 381. $3.50.

Professor Keir looks on labor problems, not as dry, static studies, but as combative clashes. In his opinion, the average college student, once he leaves school, is certain to be bombarded by both anti-and pro-labor propaganda. Hence, the student, while still in college, should learn how to evaluate the motives of contestants in labor struggles. Professor Keir believes that the method to attain this end is the forum technique in the classroom.

His book, therefore, is designed to serve as a starting point for a classroom discussions. It is a collection of pro and con arguments on controversial questions of contemporary labor problems. In no sense is it a repetition of the old line labor textbook. Rather, it is written in a debative style. That is to say, Professor Keir poses several current problems, presents both the affirmative and negative cases, and then leaves the reader to draw his own conclusions. He deals impartially with questions such as these: are the interests of capital and labor identical? is the sit-down strike a lawful weapon? should unions be made legally responsible? can unemployment be abolished? are wages paid to workers a fair share of production?

Professor Keir's treatment of this latter question is extremely provacative. After weighing the conflicting arguments, the reader's attention is focused upon the probable ineffectiveness of relying solely on the money wage method of distributing income as an immediate means of promoting general welfare. It appears that most employers, except under pressure of either unionization or competition, oppose the increase of money wages. In addition, when employers *do* raise wages, they either increase prices or/and introduce labor-displacing machinery. So that in the last analysis, the use of the wage-increase method tends to perpetuate the inequalities of income.

The logical step from an examination of wages, manifestly, is

the question: do we pay executives too much? On the affirmative side, Professor Keir, among many arguments, points out that in 1929 George W. Hill of the American Tobacco Company drew a salary of more than $1,000,000. At the same time, employees in cigarette manufacturing companies were receiving less than $1,000 a year. On the negative side, the author explains that a top-flight executive is "worth as much as he gets." His value is determined exactly the same as the worth of an "extant pair of Marie Antionette's garters." And finally, a business executive deserves a high salary because his courage and vision promotes the national welfare.

In recapitulation, although the book provides material to fortify preconceived prejudices, it is extremely challenging; and its methodology promises to awaken a much greater interest in labor problems. For that reason the book is worthy of close attention in all college classes on labor problems.

The Brookings Institution JOSEPH J. KING

Health Insurance: The Next Step in Social Security. By Louis S. Reed. New York: Harper & Brothers, 1937. Pp. xi, 281. $3.00.

To prosper, a modern industrial nation must utilize its resources —natural and human—to the full. A principal cause of loss of human resources is sickness. In turn, the principal cause of disease is poverty. Relatively few members of our society today receive the medical care they require. Why? Because they can not afford to buy it! Yet, the protection and restoration of human health is essential to the economic progress of a modern industrial nation.

Indeed, the principal unsolved problem in the provision of social security is the problem of sickness. Whether we like it or not, during the decade ahead much will be heard of proposals for sickness insurance. Already the subject has attracted intense public interest. A few months ago the much publicized "Declaration of Independence" of the Committee of 430 Physicians was published. More recently the President of the American College of Surgeons has taken his stand in support of governmental provision of medical care.

In this volume, Louis Reed, a competent student of the problem,

presents its pros and cons. As a member of the Research Staff of the Committee on the Costs of Medical Care, he acquired vast experience. As a long-time student of the economics of medical care, he has demonstrated an unmatched familiarity with all aspects of this field.

He presents squarely the arguments against any form of health insurance or socialized medicine. In the field of medicine much depends upon the initiative interest and the ambition of the individual physician. In this field the thread of political administration carries unusual dangers. In this field the relationship between the individual and his or her own physician is significant. There is no denying that these arguments merit consideration.

The arguments on the other side of the question are likewise strong. A sad commentary upon the present system is the existence of large numbers who cannot afford essential medical care while at the same time the average compensation of doctors and nurses is pitifully low. "To insist that good quality in medical service requires a method of payment under which a large proportion of the population can not pay for service," as Mr. Reed points out, is clearly to indicate the necessity for another system than now obtains.

Time after time, history shows the state has had to step in and perform services that private enterprise found unprofitable or inexpedient. Modern economic and social conditions bind the welfare of the individual closely to the welfare of the group. They, too, make essential the consideration of increasing governmental activity in new fields. Should government extend its services in the field of medical care for the individual? Those who seek information on this question will find much of value in this volume.

Social Security Board,
Washington, D. C.

JOHN J. CORSON

Trends in Relief Expenditures, 1910–1935. By Anne E. Gedder. Research Monograph X, Division of Social Research, Works Progress Administration. Washington: Government Printing Office, 1937. Pp. 103.

This pamphlet is one of many studies of various aspects of relief compiled and published under the auspices of the administrators

of the Works Progress Administration. Its purpose "is to give as much perspective as possible to recent developments (in relief expenditures) by viewing them in relation to long-time trends." The study is not concerned with expenditures for institutional relief, "foster home care or welfare services." It attempts to present all available data on "outdoor" relief expenditures made by both public and private agencies. In this study "outdoor" relief includes direct assistance to families and individuals, and also wage assistance, e.g., Works Progress Administration expenditures.

The study is composed of two parts: The first covers the period 1910–1933, while the second covers 1933–1935. (Figures for subsequent years are omitted because they were not available in 1936–37 when the study was being made.) Most students will probably find the first part more interesting, since the subject matter in the second part has been presented and analyzed in one way or another often in recent years.

Although the author's findings add little to what is already known (see "Public Welfare" in *Recent Social Trends*, pp. 1256 et seq.) several of them deserve mention here. (1) Since 1910 there has been a strong upward trend in relief expenditures. (2) The increase in recent years is almost entirely owing to public rather than private agencies. (3) The rate of increase has exceeded the rate of increase in expenditures for all other governmental functions combined. (4) Relief expenditures have increased at a very much greater rate than population. (5) Work relief and wage assistance relative to direct relief has increased greatly in importance since 1933.

As the author admits, data for the whole nation are not available. There are figures only for the larger cities and for the two states, New York, and Indiana. They cover something less than 20 per cent of the total population. Although the data on cities doubtless represent urban conditions fairly, we shall remain in the dark as to the rural conditions which prevailed before 1933.

Two important comparisons have been omitted from this otherwise able study: (1) relief expenditures and the national income; (2) the relative relief burdens of the several levels of government.

University of North Carolina F. H. BUNTING

Business Organization and Operation. 4th ed. By Ralph C. Davis. Columbus, Ohio: H. L. Hedrick, 1937. Pp. 144. $1.00.

The problem of definition in the field of business organization has not been satisfactorily solved. Consequently, much that appears to be a difference of ideas or opinions often turns out to be only a misunderstanding of terms. The term "business organization" has two related though distinct meanings. According to the first, the term is synonymous with ownership organization, or, business organization and control. In accordance with the second meaning, business organization relates to the internal affairs of a productive enterprise, without regard to the manner of ownership or ultimate control. This meaning is commonly distinguished as business organization and management, or, business organization and operation. The present study, in keeping with its title, is concerned, therefore, with the relationships of workers and executives to one another and to the enterprise as a whole in the performance of its necessary activities. As stated by the author, the two principal problems of organization are morale and organization structure.

The problem of definition is not solved, however, with the proper definition and delimitation of the field of organization. Many terms commonly used in this field are by no means standardized as to meaning. There is a tendency to use loosely, or with inadequate differentiation, such terms, for example, as: administration, management, direction, control, supervision, leadership, etc. It is here that Professor Davis makes a real contribution. Such words as these and many others he defines in relation to each other, carefully limiting their scope and connotation and distinguishing family from genus, genus from species, etc. The whole study is a splendid example of a logically developed system of thought characterized by concise definition and statement of relationships. In this the author has not attempted to invent a new terminology, he has merely refined and integrated the terminology now existing.

The basic factors in organization and operation are said by the author to be the following: (1) The ultimate authority for the conduct of organized business activity, (2) Business objectives, (3) Business ideals, (4) Business leadership, (5) Policies, (6) Functions, (7) Human faculties, (8) Physical factors of environ-

ment, (9) Organization structure, (10) Morale, (11) Business procedure, and (12) Control. A detailed discussion of these factors constitutes the main body of the text.

Finally, this book presents a clear description of the process of organization. It is hardly to be considered of merit, however, as a statement of the philosophy of business organization and operation, as indicated in the author's foreword. The volume is in mimeographed form and paper bound. It deserves a more permanent form, and possibly some enlargement.

University of North Carolina E. H. Anderson

STATE NEWS

ALABAMA

The market recession in business activity which characterized the last half of 1937 continued during the first six months of the current year. The composite index of industrial activity in Alabama, prepared by the Bureau of Business Research, dropped from 14.5 per cent above calculated normal in June, 1937, to 28.0 per cent below in January, 1938, and then weakened nominally to 28.1 per cent below in February. March recorded some improvement in a number of industries with the result that the composite index for that month advanced three points. However, each month of the second quarter reflected further curtailment with the result that the composite indicator declined to 36.9 per cent below normal in June. This was the lowest point which had been touched since August, 1935. Incomplete figures indicate that July activity averaged slightly below the June level.

Of the individual industries included in the composite, coal production and cotton consumption strengthened during the first three months but coal dropped to 50 per cent below calculated normal in June. Cotton weakened during April but continued to fluctuate around 25 per cent below normal. Electric energy consumption fluctuated closer to normal during the first six months than other industries and showed a gain of 2.5 per cent from June to July, contrary tc a customary seasonal decline. The output of pig iron fell off during January and February, advanced temporarily during March and April, but dropped sharply in May and continued downward through July. Steel declined during the first quarter and fluctuated around 34 per cent below calculated normal during the second quarter. In common with pig iron the July output reflected slightly more than seasonal curtailment.

The above statements are based upon industrial production and make allowance for long-time trend and seasonal variation. The actual volume during recent months, however, in practically all

lines—industrial trade and construction—has fallen consistently below that in the like months of last year. Gasoline consumption was the only major line which reported the total for the first quarter of the current year above that of 1937. In the second quarter coal production and cement consumption were the only lines that remained above the like months of the preceding year. The apparently favorable comparison for coal, however, is occasioned by the fact that labor difficulties dropped production to exceptionally low levels in April, 1937. Totals for the first six months were likewise generally below those for the first half of last year. With the exception of the sale of new passenger cars, trade activity showed proportionately less decline than industrial production.

Sales activity during the recent months has tended to remain above the like periods of 1936, whereas industrial activity with minor exceptions has fallen below the 1936 level. Similarly the recent dollar volume of retail trade in a number of lines approximated or exceeded that in the pre-depression years. In contrast industrial activity averaged approximately 20 per cent below the five-year average, 1926–1930.

University of Alabama H. H. Chapman

GEORGIA

Normal state tax collections at the present time are running somewhat behind last year although total collections, which include discounted rentals on the state-owned Western and Atlantic Railroad, are ahead of 1937, as are total expenditures. It is too early yet, however, to judge the ultimate effect of the new tax measures adopted at the last session of the legislature and previously reported by this correspondent. County finances are not faring so well as state according to the information available. Few of the county tax digests are available, but those released indicate a loss of 30 to 40 per cent in property values subject to taxes as a result of the homestead and personal property exemptions now in effect. The 30 or more counties which have voted dry will have difficulty in making up the revenues thus lost.

Except in those communities of the state depending largely on the cotton crop, agriculture presents a fairly bright picture. The

traditional one-crop system seems gradually to be giving way to dairying, stock raising, diversification of crops, and the development of new crops. An outstanding example of the latter is tobacco which almost over night has lifted a number of south Georgia counties to new economic levels.

The state park department reports that 2,500,000 tourists in Georgia last year spent $100,000,000 in the state, a considerable increase over the previous year. This is interesting in view of the wide support being given the idea that Georgia cultivate the tourist trade as a means of partially offsetting the outward flow of funds resulting from out of state ownership of land and industrial enterprises of the state.

The death of Dr. Charles H. Herty on July 27 of a heart attack, brought to a close a career which has been of far-reaching importance to the economic life of the state. Dr. Herty was best known for his work in developing the processes for making kraft paper and newsprint from southern slash pine. As a direct result of his work, a new and rapidly expanding industry has grown up in Georgia and Florida. The Herty Foundation which he headed will continue his experimental work under the direction of Dr. Charles H. Carpenter who served as chief assistant to Dr. Herty.

Emory University J. Edward Hedges

KENTUCKY

The first of what are expected to be annual Bankers Conferences was held at the University of Kentucky July 19, 20 and 21. The meeting was jointly sponsored by the Kentucky Bankers Association, the State Division of Banking and the University of Kentucky. Over 2000 bank officers were in attendance. The program consisted of lectures and round table discussions of problems of bank management. An especial effort was made to make the program fit the needs and interests of bankers from the smaller towns and cities.

Kentucky will begin somewhat belatedly to pay unemployment benefits January 1, 1939. A study of the probable unemployment compensation benefit load for 1939 has just been completed at the University of Kentucky. A minimum, medium, and maximum

estimate of $3,049,069, $6,365,036, and $9,518,143 respectively was made.

University of Kentucky RODMAN SULLIVAN

LOUISIANA

The Louisiana Legislature held its biennium from May 9 to July 7, 1938. This was the second session of the present administration which apparently had very little opposition.

The first regular session of the legislature of Governor Leche's administration authorized the Governor to set up a State Bureau of Industry and Commerce. By May 9, 1938 the bureau had been functioning for about one year. Most of its activities have been directed toward inducing capitalists to invest in the establishment of new industries in Louisiana. The bureau has advertised extensively and its main offerings have been: rich resoúrces, large and cheap supply of labor, and tax exemptions for a period of ten years. From all appearances the recent legislature has been highly pleased with the results attained by the bureau. It is generally believed that the bureau's success has been largely responsible for the fact that Louisiana has avoided much of the effect of the recent recession which has been so disturbing in almost the entire nation.

The legislature in its recent session took a substantial step forward with respect to civil service. While the original civil service bill was not passed, the bill of the Labor Department which did pass included some rather important civil service provisions.

According to the act, the civil service activities are divided into two divisions: Unemployment Compensaton Division and Louisiana State Employment Service Division. In each division the present employees are to be given an unassembled examination, but those employed in the future will have to take civil service examinations approved by the national government.

Louisiana State University S. A. CALDWELL

MISSISSIPPI

Governor Hugh White has succeeded in getting the major part of his drastic homestead exemption bill enacted into law at the

special session of the state legislature which is now (August 13th) in progress. The Governor sought to have homesteads exempted from all ad valorem taxation (state, municipal, county and district) except for the taxes levied for debt service. The bill which was adopted after a lengthy legislative battle leaves the municipal tax system unaltered and sets a limit of $5,000 on the assessment value which is exempted from other taxes. Otherwise the Governor's program was adopted in its main outlines. The bill also exempts farm land up to a total of 160 acres if the land is situated within five miles of the taxpayer's home. The maximum exemption of $5,000 applies to the assessment on the individual's home and his farm together.

In order to refund to the local governments approximately $3,500,000 a year which it is estimated they will lose through tax exemption, the legislature is now considering various proposed finance measures. Consideration is being given to (1) raising the state ad valorem tax on non-exempt property, (2) increasing the taxes on cigars and cigarets, and (3) placing an excise tax of two cents a bottle on beer. Account will also be taken of a current treasury surplus and an anticipated further surplus in the budget for the present biennium. Held in reserve for consideration by the present or future sessions is the 2 per cent sales tax, which may eventually have to be raised.

A worth while by-product of homestead exemption is a 186-page statistical report on the ad valorem taxes of state and local governments, prepared by the State Tax Commission's competent research division.

A noteworthy development is occurring in the textile industry in the Tupelo area, which has been characterized by (1) TVA power, (2) local ownership, and (3) daily transportation of workers from farm homes over a wide territory. The Tupelo Garment Company abruptly announced recently that it was closing down its five plants and was attempting to sell out. It was announced that sale of the New Albany plant to an eastern firm had already been effected.

This step may represent either (1) a new strategem in a bitter fight with C.I.O. or (2) a genuine decision of C.I.O.-hating owners to throw up their hands and quit. Argument for the latter ex-

planation is found in the experience of the Tupelo Cotton Mills, largely controlled by the same interests. Last year in the midst of a strike the Cotton Mills announced they were closing down permanently. The mills have never re-opened. The skilled laborers have moved away. The properties have been allowed to fall in disrepair. An important difference, however, is that the Cotton Mills have been generally regarded as a money-losing enterprise, the Garment Company as a very profitable one.

Jackson, Mississippi M. K. Horne, Jr.

NORTH CAROLINA

The second North Carolina Bankers Conference, sponsored jointly by the North Carolina Bankers Association, the State Banking Department, and the University of North Carolina, was held in Chapel Hill during the week of July 11–15. The conference was attended by some 250 bankers and bank supervisors. Included in the registrants was a splendid representation from South Carolina and Tennessee.

The program of the second conference was more effective than that of the previous year owing primarily to the concentration on a more restricted number of phases of bank administration. Credit administration was presented by Mr. Alexander Wall, Secretary of Morris Roberts Associates of Philadelphia. The seminar in investment policies was conducted by Mr. J. Harvie Wilkinson, Jr., Vice-President of State-Planters Bank of Richmond, Virginia, while cost and account analysis was discussed by Mr. John J. Driscoll, of the firm of Driscoll, Millet and Company in Philadelphia. The seminar on banking regulation was conducted by Commissioner Gurney P. Hood of Raleigh, and public relations were presented by Mr. W. H. Neal, Vice-President of the Wachovia Bank and Trust Company of Winston-Salem. The results of the extensive research program of the Bank Research Committee of the North Carolina Bankers Association covering banking trends in this state from 1927 through 1937 were presented by Dr. John B. Woosley of the University of North Carolina, who served as consultant to the committee during the past two years and wrote the main body of the report which is reviewed in this issue of the journal.

The evening lectures, which attracted a large attendance of bankers not registered for the entire program, were delivered by Dr. E. M. Bernstein of the University of North Carolina, Dr. Marcus Nadler of New York University, Dr. Harold Stonier of the American Bankers Association, and Hon. Marshall Digges, acting Comptroller of Currency.

Since the first North Carolina Bankers Conference in 1937 originated the experiment of an intensive program of study for bankers on a state-wide basis, a number of other states have developed similar programs. The movement has made remarkable progress, especially in the Southern states. During the current year banking conferences have been held in Louisiana, Kentucky, Florida, South Carolina, Virginia, and Mississippi. A similar movement in the Pacific Northwest along somewhat more ambitious lines had led to the establishment of a School for Bankers, sponsored by the banking associations in these states and the University of Washington. These and similar projects unmistakably attest to the heightened sense of responsibility on the part of bankers for the future of chartered banking in the United States.

SOUTH CAROLINA

Applications for assistance under the provisions of the state social security legislation have, in some counties at least, been so numerous as to swamp the machinery for investigating applicants. In some instances the case workers are several months behind. Funds appropriated by the 1938 session of the legislature are apparently most inadequate, necessitating material reductions in assistance given to those already certified. While a number of legislators and others have advocated a special session of the legislature to consider the problem, to date no action has been taken. Also, for the first time in four or five years, there is some evidence of an impending deficit in state finances.

A Chicago firm has recently been awarded the engineering contract for the Santee-Cooper River project. PWA funds of about $37,000,000 were set aside for this project some time ago. The scheme is in some respects similar to the TVA, the emphasis being on navigation development as far up as Columbia and provision for electric power. The moot plan provides for two dams which

will impound lakes of considerable size and which will divert a portion of the flow of the large Santee River into the Cooper River, the latter river emptying into Charleston harbor. While neither dam will provide an enormous head of water, the heavy flow is expected to permit considerable development of electric power.

The Greenville County Council for Community Development is entering upon the third year of its five year program. Financial support for the council's activities comes largely from a grant by the General Education Board totaling $80,000. Several members of the faculty of Furman University are staff consultants, while three or four staff members devote full time to the work of the council. The council itself is composed of some seventy-five representatives from the citizenship of Greenville County who aim to effect a permanent program for the study and improvement of the county's various physical, human, and institutional resources.

Furman University A. G. Griffin

TENNESSEE

On August 4, Tennessee's Democratic primary campaign was brought to a close. The main issue of the campaign, the Crump-Browning feud, seems to have been resolved by the voters of the state in favor of the Crump faction. Gordon Browning was decisively defeated by the Crump candidate for governor, Prentice Cooper. Senator George L. Berry, critical in some respects of the New Deal, was likewise defeated by a Crump candidate, Tom Stewart, who gave whole-hearted endorsement to the New Deal.

With an appropriation of $50,000 the ten-man Congressional Committee, appointed to investigate and report upon the affairs of the Tennessee Valley Authority, came into the Valley in the early part of July. After a week of travel reviewing various projects, the committee convened for hearings in Knoxville. The former Chairman of the Board of Directors of the Authority, Dr. Arthur E. Morgan, and the two present board members, Dr. Harcourt A. Morgan and David E. Lilienthal, were heard. These were followed by the TVA General Manager John B. Blandford, several department directors, and a small number of individuals representing interested citizen groups. The fertilizer program,

the purchase by TVA of certain phosphate lands, the handling of marble claims of Senator Berry and his associates, and the whole concept of a "yardstick" for power rates have formed the chief lines of inquiry to date.

The AAA has announced wheat acreage for Tennessee for 1939 of 337,139 acres. The acreage seeded in 1938 was 562,000.

Speaking in Memphis on August 5, Mr. Harry Hopkins stated the South's greatest needs as: (1) Increased farm income; (2) Equalized educational and health opportunities; (3) Cheaper power to attract industry. Handicaps to the South's development Hopkins said, are: (1) Concentration of financial power in too few people, most of whom live outside the South; (2) Penalty of the existing freight rate structure; (3) Tariff policy; (4) The one-crop agricultural system with the credit scheme it entails.

Evidence continues to develop of the widespread interest in the parks and recreational facilities of Tennessee. A new record attendance for the summer characterized Chickamauga and Chattanooga National Parks. New high records of attendance at the parks of the Norris Dam area and the Great Smoky Mountains were also realized.

On July 20, State Budget Director Henry Burke announced that more than $3,000,000 was slashed from the legislature's appropriations to bring about a cash balance of $536,558 at the close of the fiscal year 1937–38. It was stated that the total expenditures over which the state had jurisdiction aggregated $26,379,187, including funds for the social security program. While Director Burke is able to point to a balanced budget, it is evident that education and other public services have suffered.

Tennessee Valley Authority T. L. Howard

PERSONNEL NOTES

C. M. Anderson, who supplied last year at the University of Florida during the absence of J. E. Chace, has been appointed assistant professor of economics at The Woman's College of the University of North Carolina.

E. H. Anderson, who has been instructor in the Department of Economics and Commerce, University of North Carolina, has been promoted to assistant professor of business administration. His book (with G. T. Schwenning), *The Science of Production Organization*, was published in August by John Wiley & Sons.

F. M. Bernfield of The Citadel has been granted leave of absence to study at Yale.

A. T. Bonnell, formerly of St. Louis University, has been appointed instructor in economics in the University of North Carolina.

M. R. Brewster, associate professor of economics at the Georgia School of Technology, has been given a partial leave of absence from his teaching duties for the current academic year. He will conduct a real property survey of Atlanta, sponsored jointly by the W.P.A. and the Atlanta Housing Authority.

O. F. Brown, formerly of Marquette University, is now instructor in business administration at The Citadel.

E. G. Cale, formerly assistant professor of economics at Tulane University, has been appointed associate professor of economics at the University of Richmond.

R. E. Carlson has been appointed assistant professor of economics at Virginia Polytechnic Institute.

M. L. Clough, formerly with the Wharton School of the University of Pennsylvania, has joined the staff of The Citadel.

R. W. Crutchfield, who has been laboratory assistant in accounting in the University of North Carolina, has been promoted to instructor in accounting.

T. N. Farris, professor of economics at Louisiana State University, was invited to teach again in the summer session at Peabody University. He was with them also in the 1937 summer session.

C. G. Garland has resigned from the University of Maine to join the staff of The Citadel as instructor in business administration.

Paul Geren, instructor in economics at Louisiana State University, went to Harvard University for the summer session to work with Chamberlin in the field of monopolistic competition and study the business cycle under Alvin H. Hansen.

Richard Goode, heretofore a research assistant at the University of Kentucky Bureau of Business Research, has accepted a part-time instructorship in public finance.

R. H. Gray has been promoted to an assistant professorship of economics and commerce at Washington and Lee University.

T. F. Haygood has resigned from the University of Louisville to accept an appointment as associate professor of economics in West Virginia University.

L. K. Johnson, assistant professor of commerce and administration in Washington and Lee University is on leave of absence doing advanced work at Ohio State University.

A. S. Keister, professor of economics at the Woman's College of the University of North Carolina, again served on the faculty of the school for bankers held at Rutgers University during the summer.

R. B. Ketchum of Salt Lake City has been added to the staff of the College of Commerce of the University of Kentucky. He will teach in the field of finance. He taught in the School of Business, University of Chicago, the past summer.

C. E. Kuhlman, who has been an instructor in the Department of Economics and Commerce of the University of North Carolina, is returning to North Texas State Teachers College where he is an associate professor.

H. L. McCracken, head of the Department of Economics at Louisiana State University, addressed the farmers of the state during their annual short course, on "Parity Prices, Their Meaning and Significance."

R. D. McIntyre, professor of economics who has been on leave from the University of Kentucky in 1937-38, resumed his duties at the University of Kentucky in September.

W. T. McQuilkin, who during the academic year 1937-38 was an "intern" in the National Institute of Public Affairs, has accepted a research assistantship in the University of Kentucky Bureau of Business Research for the next academic year.

Alpheus Marshall, associate professor of economics at the University of Maryland, taught courses in economic geography at the University of Virginia summer school.

J. W. Martin, director of the University of Kentucky Bureau of Business Research, will continue his work next academic year as Kentucky State Commissioner of Revenue and at the same time maintain his connection with the university.

J. T. Masten has been added to the staff of the School of Commerce at Washington and Lee University as instructor.

G. M. Modlin, formerly assistant professor of economics at Princeton University, has been appointed Dean of Business Administration and Director of the Evening School at the University of Richmond, succeeding J. J. Corson, who recently resigned to become director of the Bureau of Old Age Insurance for the Social Security Board.

E. Z. Palmer, professor of economics, University of Kentucky, has been serving as research director of the Kentucky Unemployment Compensation Commission and continuing his work at the university, both as teacher and as assistant director of the Bureau of Business Research.

W. F. Somers has been appointed assistant professor of business administration at Virginia Polytechnic Institute.

Rodman Sullivan, associate professor of economics of the University of Kentucky, has been granted leave of absence for the current academic year to do graduate work elsewhere.

D. T. Tarlton, professor of economics at Nachitoches Teachers' College, was at Louisiana State University for the summer session, doing graduate work and teaching economic principles.

C. L. Wood has been appointed to an instructorship in the Marshall-Wyth School of Government in the College of William and Mary. He will give courses in government and economics.

J. M. Wright, for several years professor of economics in Agnes Scott College, has recently joined the faculty of Erskine College.

NOTES

PROGRAM OF THE SOUTHERN ECONOMIC ASSOCIATION

Eleventh Annual Conference, October 28 and 29, 1938
Tutwiler Hotel, Birmingham, Alabama

Friday, October 28th

Meeting of the Executive Committee, 9 A.M.

General Session, 10 A.M.

Presiding, T. C. Bigham, President, Southern Economic Association

Topic: Social Control (papers limited to 30 minutes)

1. "Social Control in a Democracy," C. E. Ayres, University of Texas
2. "The Present Status of Monetary and Credit Control," G. D. Hancock, Washington and Lee University

Discussion: George S. Mitchell, Federal Resettlement Administration, Raleigh; Ralph C. Hon, Southwestern University

Round Tables, 2:30 P.M.

I. Presiding, Emory Q. Hawk, Birmingham-Southern College

Topic: Labor and Industry (Papers limited to 25 minutes)

1. "Real and Fancied Opportunities for the Location of Industries in the South," S. A. Caldwell, Louisiana State University
2. "The Present Status of Labor Unions in the South," F. T. de Vyver, Duke University
3. "The Efficiency of Labor in the South," H. H. Chapman, University of Alabama

Discussion: J. W. Bell, University of Mississippi; A. G. Griffin, Furman University; L. W. Lohr, Howard College

II. Presiding, R. P. Brooks, University of Georgia

Topic: Problems of Agriculture

1. "The New Agricultural Control Program," G. H. Aull, Clemson College

2. "The Prospects for International Trade in Southern Farm Products," Louis H. Bean, U. S. Department of Agriculture, Washington

Discussion: R. J. Saville, Louisiana State University; Edward G. Cale, Tulane University

General Session, 8 P.M.

Presiding, Lee Bidgood, University of Alabama

Presidential Address: "The Allocation of Productive Resources under Government Regulation of Rates," T. C. Bigham, University of Florida

Address: "Social Progress and the Law," W. M. Hepburn, University of Alabama Law School

Saturday, October 29th

Business Session, 9 A.M.

Round Tables, 10 A.M. (Papers limited to 25 minutes)

I. Presiding, Marion E. Lewis, The Citadel

Topic: Problems of Management and Personnel

1. "Scientific Management and Production Economics," E. H. Anderson, University of North Carolina
2. "How Can We Measure the Effectiveness of Personnel Work?" E. B. Shultz, Tennessee Valley Authority, Knoxville

Discussion: W. J. Matherly, University of Florida; Pearce C. Kelley, University of Arkansas

II. Presiding, Edgar Z. Palmer, University of Kentucky

Topic: Administration of Social Security Laws

1. "The Administration of Unemployment Insurance," E. J. Eberling, Vanderbilt University
2. "The Administration of Old Age Assistance," W. E. Cole, University of Tennessee

Discussion: B. R. Morley, Unemployment Compensation Division, Social Security Board, Birmingham; Elizabeth Thompson, Tennessee Department of Institutions and Public Welfare

BOOKS RECEIVED

Wages and Income in the United Kingdom Since 1860. By A. L. Bowley. Cambridge: University Press; New York: Macmillan Co., 1938. Pp. xix, 151. $2.50.

Accident and Health Insurance from the Victim's Point of View. By Bion H. Francis and Sumner Harwood. Cambridge, Mass.: American Institute for Economic Research. Pp. 64. $1.00.

Effect of the Works Program on Rural Relief. By Rebecca Farnham and Irene Link. Washington: Works Progress Administration, 1938. Pp. xxiv, 115.

Business and Modern Society. Edited by Malcolm P. McNair and Howard T. Lewis. Cambridge: Harvard University Press, 1938. Pp. viii, 411. $5.00.

Biology and Marxism. By Marcel Prenant. Translated by C. Desmond Greaves. New York: International Publishers, 1938. Pp. xxiii, 223. $2.50.

Intercity Differences in Costs of Living in March, 1935, 59 Cities. By Margaret Loomis Stecker. Washington: Works Progress Administration, 1938. Pp. xxvi, 216.

The Tobacco Kingdom. By Joseph Clarke Robert. Durham: Duke University Press, 1938. Pp. xiii, 286. $3.00.

Elements of Retail Merchandising. By John W. Wingate and Norris A. Brisco. New York: Prentice-Hall, 1938. Pp. xvi, 475. $4.00.

Labor Problems and the American Scene. By Lois MacDonald. New York: Harper & Brothers, 1938. Pp. xiii, 878. $3.50.

Tench Coxe: A Study in American Economic Development. By Harold Hutcheson. Baltimore: Johns Hopkins Press, 1938. Pp. ix, 227. $2.25.

International Trade and Finance. By John Parke Young. New York: Ronald Press Co., 1938. Pp. xviii, 526. $4.00.

Corporation Finance. By Kenneth Field. New York: Ronald Press Co., 1938. Pp. xvi, 529. $4.00.

American Regionalism. By Howard W. Odum and Harry Estill Moore. New York: Henry Holt and Company, 1938. Pp. x, 693. $3.80.

Merchants of Peace. By George L. Ridgeway. New York: Columbia University Press, 1938. Pp. xii, 419. $3.75.

The Principles of Rational Industrial Management. By James J. Gillespie.

New York: Pitman Publishing Corporation, 1938. Pp. xv, 229. $4.00.

Incentives and Contentment: A Study Made in A British Factory. By Patricia Hall and H. W. Locke. With a Foreword by B. Seebohm Rowntree. New York: Pitman Publishing Corporation, 1938. Pp. xii, 190. $1.00.

Trends in North Carolina Banking. By the Research Committee of the North Carolina Bankers Association. Raleigh: North Carolina Bankers Association, 1938. Paper covers. Pp. 152. 75 cents.

Vision and Organization: Periodicity in Social Structures. By Francis J. Mott. Boston: A. A. Beauchamp, 1938. Pp. ix, 242. $2.50.

The Geography of Reading. By Louis R. Wilson. Chicago: University of Chicago Press, 1938. Pp. xxiv, 481. $4.00.

Monetary Policies of the United States, 1932–1938. By James Daniel Paris. New York: Columbia University Press, 1938. Pp. xiv, 198. $2.75.

Brass Tacks. By A. G. Keller. New York: Alfred A. Knopf, 1938. Pp. 233. $2.00.

Seven Years of Unemployment Relief in New Jersey, 1930–1936. By Douglas H. MacNeil. New York: Social Science Research Council, 1938. Pp. xii, 307.

Purchasing Power: An Introduction to Qualitative Credit Control Based on the Theories of Stephen A. Colwell. By Ralph West Robey. New York: Prentice-Hall, 1938. Pp. xiii, 163. $2.50.

Labour Relations in Republican Germany: An Experiment in Industrial Democracy, 1918–1933. By Nathan Reich. New York: Oxford University Press, 1938. Pp. 293. $3.00.

World Finance, 1937–1938. By Paul Einzig. New York: Macmillan Co., 1938. Pp. xvii, 336. $3.00.

Some Inequalities in the Assessment of Farm Real Estate in South Carolina. By G. H. Aull and Ernest Riley. Clemson: South Carolina Agricultural Experiment Station of Clemson Agricultural College, Bulletin 313, January, 1938. Pp. 46.

Basic Economics. By Nicholas H. Selseth. Philadelphia: Dorrance & Co., 1938. Pp. 248. $2.50.

A Theory of Hotel Room Rates. By Howard Bagnall Meek. Ithaca, New York: Cornell University, 1938. Pp. 120. $2.00.

Executive Salaries and Bonus Plans. By John C. Baker. New York: McGraw-Hill Book Co., 1938. Pp. xxiv, 274. $3.50.

Labor's Progress and Some Basic Labor Problems. By Harry K. Millis and Royal E. Montgomery. New York: McGraw-Hill Book Co., 1938. Pp. xvi, 584. $3.75.

A History of the Business Man. By Miriam Beard. New York: Macmillan Co., 1938. Pp. vi, 779. $5.00.

Industrial Price Policies and Economic Progress. By Edwin S. Nourse and Horace B. Drury. Washington: Brookings Institution, 1938. Pp. xi, 314. $2.50.

Unemployment Relief Without Taxation. By E. Clark Burdick. New York: Samuel R. Leland, 1938. Pp. vii, 125. $1.25.

Your Life Insurance—And What To Do About It. By David Gilbert and James P. Sullivan. Philadelphia: Marlowe Publishing Co., 1938. Pp. 56. $1.00.

Inflation and Deflation Can Be and Should Be Eliminated. By Emmett C. Barr. Benedum-Trees Building, Pittsburgh: Emmett C. Barr, 1938. Pp. vi, 94. $2.00.

Commodity Flow and Capital Formation. Vol. I. By Simon Kuznets. New York: National Bureau of Economic Research, 1938. Pp. ix, 505. $5.00.

The Administration of An N.R.A. Code. By Robert H. Connery. Chicago: Public Administration Service, 1938. Pp. xxiii, 211. $2.50.

Almshouse Policies and Almshouse Care of the Indigent in Tennessee. By William E. Cole. Knoxville: University of Tennessee Record, July, 1938. Pp. 76.

Accounting Manual for Counties of Tennessee. By W. H. Read. Knoxville: University of Tennessee Record, July, 1938. Pp. 127.

Industry and Commerce of the City of Rome, 50 B.C.—200 A.D. By Helen Jefferson Loane. Baltimore: Johns Hopkins Press, 1938. Paper covers. Pp. 158. $1.50.

Control Policies of the Reichsbank, 1924–1933. By Mildred B. Northrop. New York: Columbia University Press, 1938. Pp. 405. $4.00.

The Theory and Measurement of Demand. By Henry Schultz. Chicago: University of Chicago Press, 1938. Pp. xxi, 803. $7.50.

The Science of Production Organization. By E. H. Anderson and G. T. Schwenning. New York: John Wiley & Sons, 1938. Pp. x, 282. $3.50.

The Worker's Standards of Living. Studies and Reports, Series B (Economic Conditions) No. 30. Washington Branch, International Labor Office, 1938. Pp. 101. 50 cents.

Planning and Administration of Unemployment Compensation in the United States. By Bryce M. Stewart and Associates. New York: Industrial Relations Counselors, 1938. Pp. xiii, 665. $4.00.

Government Corporations and Federal Funds. By John McDiarmid. Chicago: University of Chicago Press, 1938. Pp. xx, 244. $2.50.

Why Are We So Prosperous? By V. O. Watts. Minneapolis: Burgess Publishing Co., 1938. Pp. vi, 99. $1.00.